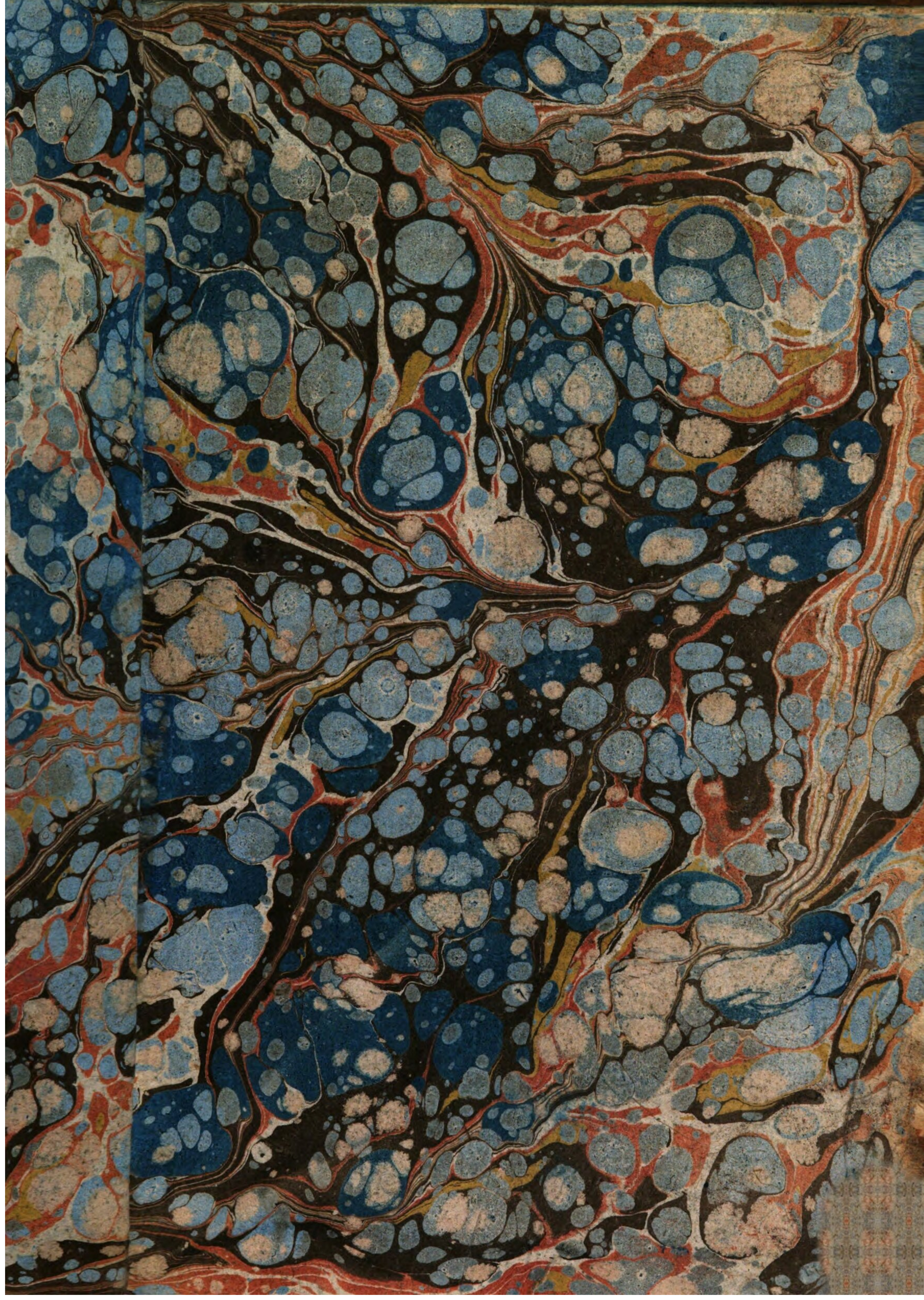














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Charles H. Davis

1844



AN  
INQUIRY  
INTO THE  
NATURE AND CAUSES  
OF THE  
WEALTH OF NATIONS.

BY

ADAM SMITH, L. L. D.

AND F. R. S. OF LONDON AND EDINBURGH:

ONE OF THE COMMISSIONERS OF HIS MAJESTY'S CUSTOMS  
IN SCOTLAND;

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VOL. II.



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I N Q U I R Y

INTO THE

NATURE AND CAUSES

OF THE

WEALTH OF NATIONS

BY

ADAM SMITH M. A.

OF THE UNIVERSITY OF GLASGOW  
AND OF THE UNIVERSITY OF EDINBURGH  
IN SCOTLAND  
BY THE REV. JOHN MILLAR  
OF THE UNIVERSITY OF GLASGOW

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WEALTH OF NATIONS.

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BOOK II.

Of the Nature , Accumulation , and Employ-  
ment of Stock.

INTRODUCTION.

**I**N that rude state of society in which there is no division of labor, in which exchanges are seldom made , and in which every man provides every thing for himself, it is not necessary that any stock should be accumulated or stored up beforehand in order to carry on the business of the society. Every man endeavours to supply by his own industry his own occasional wants as they occur. When he is hungry , he goes to the forest to hunt; when his coat is worn out, he clothes himself with the skin of the first large animal he kills: and when his hut begins to go to ruin , he repairs it, as well as he can, with the trees and the turf that are nearest it.

But when the division of labor has once been



## 2 THE NATURE AND CAUSES OF

thoroughly introduced, the produce of a man's own labor can supply but a very small part of his occasional wants. The far greater part of them are supplied by the produce of other men's labor, which he purchases with the produce, or, what is the same thing, with the price of the produce of his own. But this purchase cannot be made till such time as the produce of his own labor has not only been compleated, but sold. A stock of goods of different kinds, therefore, must be stored up somewhere sufficient to maintain him, and to supply him with the materials and tools of his work till such time, at least, as both these events can be brought about. A weaver cannot apply himself entirely to his peculiar business, unless there is beforehand stored up somewhere, either in his own possession or in that of some other person, a stock sufficient to maintain him, and to supply him with the materials and tools of his work, till he has not only compleated, but sold his web. This accumulation must, evidently, be previous to his applying his industry for so long a time to such a peculiar business.

As the accumulation of stock must, in the nature of things, be previous to the division of labor, so labor can be more and more subdivided in proportion only as stock is previously more and more accumulated. The quantity of materials which the same number of people can work up, increases in a great proportion as labor comes to be more and more subdivided; and as the operations of each workman are gradually reduced to a greater degree



of simplicity, a variety of new machines come to be invented for facilitating and abridging those operations. As the division of labor advances, therefore, in order to give constant employment to an equal number of workmen, an equal stock of provisions, and a greater stock of materials and tools than what would have been necessary in a ruder state of things, must be accumulated beforehand. But the number of workmen in every branch of business generally increases with the division of labor in that branch, or rather it is the increase of their number which enables them to class and subdivide themselves in this manner.

As the accumulation of stock is previously necessary for carrying on this great improvement in the productive powers of labor, so that accumulation naturally leads to this improvement. The person who employs his stock in maintaining labor, necessarily wishes to employ it in such a manner, as to produce as great a quantity of work as possible. He endeavours, therefore, both to make among his workmen the most proper distribution of employment, and to furnish them with the best machines which he can either invent or afford to purchase. His abilities in both these respects are generally in proportion to the extent of his stock, or to the number of people whom it can employ. The quantity of industry, therefore, not only increases in every country with the increase of the stock which employs it, but, in consequence of that increase, the same quantity of industry produces a much greater quantity of work.



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Such are in general the effects of the increase of stock upon industry and its productive powers.

In the following book I have endeavoured to explain the nature of stock, the effects of its accumulation into capitals of different kinds, and the effects of the different employments of those capitals. This book is divided into five chapters. In the first chapter, I have endeavoured to show what are the different parts or branches into which the stock, either of an individual, or of a great society, naturally divides itself. In the second, I have endeavoured to explain the nature and operation of money considered as a particular branch of the general stock of the society. The stock which is accumulated into a capital, may either be employed by the person to whom it belongs, or it may be lent to some other person. In the third and fourth chapters, I have endeavoured to examine the manner in which it operates in both these situations. The fifth and last chapter treats of the different effects which the different employments of capital immediately produce upon the quantity both of national industry, and of the annual produce of land and labor.

### C H A P. I.

#### *Of the Division of Stock.*

**W**HEN the stock which a man possesses is no more than sufficient to maintain him for a few days or a few weeks, he seldom thinks of de-



giving any revenue from it. He consumes it as sparingly as he can, and endeavours by his labor to acquire something which may supply its place before it be consumed altogether. His revenue is, in this case, derived from his labor only. This is the state of the greater part of the laboring poor in all countries.

But when he possesses stock sufficient to maintain him for months or years, he naturally endeavours to derive a revenue from the greater part of it; reserving only so much for his immediate consumption as may maintain him till this revenue begins to come in. His whole stock, therefore, is distinguished into two parts. That part which, he expects, is to afford him this revenue, is called his capital. The other is that which supplies his immediate consumption; and which consists either, first, in that portion of his whole stock which was originally reserved for this purpose; or, secondly, in his revenue, from whatever source derived, as it gradually comes in; or, thirdly, in such things as had been purchased by either of these in former years, and which are not yet entirely consumed; such as a stock of clothes, household furniture, and the like. In one, or other, or all of these three articles, consists the stock which men commonly reserve for their own immediate consumption.

There are two different ways in which a capital may be employed so as to yield a revenue or profit to its employer.

First, it may be employed in raising, manu-



## 6 THE NATURE AND CAUSES OF

facturing, or purchasing goods and selling them again with a profit. The capital employed in this manner yields no revenue or profit to its employer, while it either remains in his possession, or continues in the same shape. The goods of the merchant yield him no revenue or profit till he sells them for money, and the money yields him as little till it is again exchanged for goods. His capital is continually going from him in one shape, and returning to him in another, and it is only by means of such circulation, or successive exchanges, that it can yield him any profit. Such capitals, therefore, may very properly be called circulating capitals.

Secondly, it may be employed in the improvement of land, in the purchase of useful machines, and instruments of trade, or in such-like things as yield a revenue or profit without changing masters, or circulating any further. Such capitals, therefore, may very properly be called fixed capitals.

Different occupations require very different proportions between the fixed and circulating capitals employed in them.

The capital of a merchant, for example, is altogether a circulating capital. He has occasion for no machines or instruments of trade, unless his shop, or warehouse, be considered as such.

Some part of the capital of every master artificer or manufacturer must be fixed in the instruments of his trade. This part, however, is very small in some, and very great in others. A master



taylor requires no other instruments of trade but a parcel of needles. Those of the master shoemaker are a little, though but a very little, more expensive. Those of the weaver rise a good deal above those of the shoemaker. The far greater part of the capital of all such master artificers, however, is circulated, either in the wages of the workmen, or in the price of their materials, and repaid with a profit by the price of the work.

In other works a much greater fixed capital is required. In a great iron-work, for example, the furnace for melting the ore, the forge, the flint-mill, are instruments of trade which cannot be erected without a very great expense. In coal-works and mines of every kind, the machinery necessary both for drawing out the water and for other purposes, is frequently still more expensive.

That part of the capital of the farmer which is employed in the instruments of agriculture is a fixed; that which is employed in the wages and maintenance of his laboring servants, is a circulating capital. He makes a profit of the one by keeping it in his own possession, and of the other by parting with it. The price or value of his laboring cattle is a fixed capital in the same manner as that of the instruments of husbandry: Their maintenance is a circulating capital in the same manner as that of the laboring servants. The farmer makes his profit by keeping the laboring cattle, and by parting with their maintenance. Both the price and the maintenance in the cattle which are bought in and fattened, not for labor, but for sale, are



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a circulating capital. The farmer makes his profit by parting with them. A flock of sheep or a herd of cattle that, in a breeding country, is bought in, neither for labor, nor for sale, but in order to make a profit by their wool, by their milk, and by their increase, is a fixed capital. The profit is made by keeping them. Their maintenance is a circulating capital. The profit is made by parting with it; and it comes back with both its own profit, and the profit upon the whole price of the cattle, in the price of the wool, the milk, and the increase. The whole value of the feed too is properly a fixed capital. Though it goes backwards and forwards between the ground and the granary, it never changes masters, and therefore does not properly circulate. The farmer makes his profit, not by its sale, but by its increase.

The general stock of any country or society is the same with that of all its inhabitants or members, and therefore naturally divides itself into the same three portions, each of which has a distinct function or office.

The first, is that portion which is reserved for immediate consumption, and of which the characteristic is, that it affords no revenue or profit. It consists in the stock of food, clothes, household furniture, &c. which have been purchased by their proper consumers, but which are not yet entirely consumed. The whole stock of mere dwelling-houses too subsisting at any one time in their country, make a part of this first portion. The stock that is laid out in a house, if it is to be the dwelling-house of the proprietor,



ceases from that moment to serve in the function of a capital, or to afford any revenue to its owner. A dwelling-house, as such, contributes nothing to the revenue of its inhabitant; and though it is, no doubt, extremely useful to him, it is as his clothes and household furniture are useful to him, which, however, make a part of his expense, and not of his revenue. If it is to be let to a tenant for rent, as the house itself can produce nothing, the tenant must always pay the rent out of some other revenue which he derives either from labor, or stock, or land. Though a house, therefore, may yield a revenue to its proprietor, and thereby serve in the function of a capital to him, it cannot yield any to the public, nor serve in the function of a capital to it, and the revenue of the whole body of the people can never be in the smallest degree increased by it. Clothes, and household furniture, in the same manner, sometimes yield a revenue, and thereby serve in the function of a capital to particular persons. In countries where masquerades are common, it is a trade to let out masquerade dresses for a night. Upholsterers frequently let furniture by the month or by the year. Undertakers let the furniture of funerals by the day and by the week. Many people let furnished houses, and get a rent, not only for the use of the house, but for that of the furniture. The revenue, however, which is derived from such things, must always be ultimately drawn from some other source of revenue. Of all parts of the stock, either of an individual, or of a society, reserved for immediate consumption, what is laid



out in houses is most slowly consumed. A stock of clothes may last several years : a stock of furniture half a century or a century : but a stock of houses, well built and properly taken care of, may last many centuries. Though the period of their total consumption, however, is more distant, they are still as really a stock reserved for immediate consumption as either clothes or household furniture.

The Second of the three portions into which the general stock of the society divides itself, is the fixed capital ; of which the characteristic is, that it affords a revenue or profit without circulating or changing masters. It consists chiefly of the four following articles.

First, of all useful machines and instruments of trade which facilitate and abridge labor :

Secondly, of all those profitable buildings which are the means of procuring a revenue, not only to their proprietor who lets them for a rent, but to the person who possesses them and pays that rent for them ; such as shops, warehouses, workhouses, farmhouses, with all their necessary buildings ; stables, granaries, &c. These are very different from mere dwelling houses. They are a sort of instruments of trade, and may be considered in the same light.

Thirdly, of the improvements of land, of what has been profitably laid out in clearing, draining, enclosing, manuring, and reducing it into the condition most proper for tillage and culture. An improved farm may very justly be regarded in the same light as those useful machines which facilitate



and abridge labor, and by means of which, an equal circulating capital can afford a much greater revenue to its employer. An improved farm is equally advantageous and more durable than any of those machines, frequently requiring no other repairs than the most profitable application of the farmer's capital employed in cultivating it:

Fourthly, of the acquired and useful abilities of all the inhabitants or members of the society. The acquisition of such talents, by the maintenance of the acquirer during his education, study, or apprenticeship, always costs a real expense, which is a capital fixed and realized, as it were, in his person. Those talents, as they make a part of his fortune, so do they likewise of that of the society to which he belongs. The improved dexterity of a workman may be considered in the same light as a machine or instrument of trade which facilitates and abridges labor, and which, though it costs a certain expense, repays that expense with a profit.

The Third and last of the three portions into which the general stock of the society naturally divides itself, is the circulating capital; of which the characteristic is, that it affords a revenue only by circulating or changing masters. It is composed likewise of four parts:

First, of the money by means of which all the other three are circulated and distributed to their proper consumers:

Secondly, of the stock of provisions which are in the possession of the butcher, the grazier, the farmer, the corn-merchant, the brewer, &c. and



from the sale of which they expect to derive a profit :

Thirdly, of the materials, whether altogether rude, or more or less manufactured, of clothes, furniture, and building, which are not yet made up into any of those three shapes, but which remain in the hands of the growers, the manufacturers, the mercers and drapers, the timber-merchants, the carpenters and joiners, the brick-makers, &c.

Fourthly, and lastly, of the work which is made up and compleated, but which is still in the hands of the merchant or manufacturer, and not yet disposed of, or distributed to the proper consumers; such as the finished work which we frequently find ready-made in the shops of the smith, the cabinet-maker, the goldsmith, the jeweller, the china-merchant, &c. The circulating capital consists in this manner, of the provisions, materials, and finished work of all kinds that are in the hands of their respective dealers, and of the money that is necessary for circulating and distributing them to those who are finally to use, or to consume them.

Of these four parts three, provisions, materials, and finished work, are, either annually, or in a longer or shorter period, regularly withdrawn from it, and placed either in the fixed capital or in the stock reserved for immediate consumption.

Every fixed capital is both originally derived from, and requires to be continually supported by a circulating capital. All useful machines



and instruments of trade are originally derived from a circulating capital, which furnishes the materials of which they are made, and the maintenance of the workmen who make them. They require too a capital of the same kind to keep them in constant repair.

No fixed capital can yield any revenue but by means of a circulating capital. The most useful machines and instruments of trade will produce nothing without the circulating capital which affords the materials they are employed upon, and the maintenance of the workmen who employ them. Land, however improved, will yield no revenue without a circulating capital, which maintains the laborers who cultivate and collect its produce.

To maintain and augment the stock which may be reserved for immediate consumption, is the sole end and purpose both of the fixed and circulating capitals. It is this stock which feeds, clothes, and lodges the people. Their riches or poverty depends upon the abundant or sparing supplies which those two capitals can afford to the stock reserved for immediate consumption.

So great a part of the circulating capital being continually withdrawn from it, in order to be placed in the other two branches of the general stock of the society; it must in its turn require continual supplies, without which it would soon cease to exist. These supplies are principally drawn from three sources, the produce of land, of mines, and of fisheries. These afford continual supplies of provisions and materials, of which part is afterwards



wrought up into finished work, and by which are replaced the provisions, materials, and finished work continually withdrawn from the circulating capital. From mines too is drawn what is necessary for maintaining and augmenting that part of it which consists in money. For though, in the ordinary course of business, this part is not, like the other three, necessarily withdrawn from it, in order to be placed in the other two branches of the general stock of the society, it must, however, like all other things, be wasted and worn out at last, and sometimes too be either lost or sent abroad, and must, therefore, require continual, though, no doubt, much smaller supplies.

Land, mines, and fisheries, require all both a fixed and a circulating capital to cultivate them; and their produce replaces with a profit, not only those capitals, but all the others in the society. Thus the farmer annually replaces to the manufacturer the provisions which he had consumed and the materials which he had wrought up the year before; and the manufacturer replaces to the farmer the finished work which he had wasted and worn out in the same time. This is the real exchange that is annually made between those two orders of people, though it seldom happens that the rude produce of the one and the manufactured produce of the other, are directly bartered for one another; because it seldom happens that the farmer sells his corn and his cattle, his flax and his wool, to the very same person of whom he chuses to purchase the



clothes, furniture, and instruments of trade which he wants. He sells, therefore, his rude produce for money, with which he can purchase, wherever it is to be had, the manufactured produce he has occasion for. Land even replaces, in part at least, the capitals with which fisheries and mines are cultivated. It is the produce of land which draws the fish from the waters; and it is the produce of the surface of the earth which extracts the minerals from its bowels.

The produce of land, mines, and fisheries, when their natural fertility is equal, is in proportion to the extent and proper application of the capitals employed about them. When the capitals are equal and equally well applied, it is in proportion to their natural fertility.

In all countries where there is tolerable security, every man of common understanding will endeavour to employ whatever stock he can command in procuring either present enjoyment or future profit. If it is employed in procuring present enjoyment, it is a stock reserved for immediate consumption. If it is employed in procuring future profit, it must procure this profit either by staying with him, or by going from him. In the one case it is a fixed, in the other it is a circulating capital. A man must be perfectly crazy who, where there is tolerable security, does not employ all the stock which he commands, whether it be his own or borrowed of other people, in some one or other of those three ways.



In those unfortunate countries, indeed, where men are continually afraid of the violence of their superiors, they frequently bury and conceal a great part of their stock, in order to have it always at hand to carry with them to some place of safety, in case of their being threatened with any of those disasters to which they consider themselves as at all times exposed. This is said to be a common practice in Turkey, in Indostan, and, I believe, in most other governments of Asia. It seems to have been a common practice among our ancestors during the violence of the feudal government. Treasure-trove was in those times considered as no contemptible part of the revenue of the greatest sovereigns in Europe. It consisted in such treasure as was found concealed in the earth, and to which no particular person could prove any right. This was regarded in those times as so important an object, that it was always considered as belonging to the sovereign, and neither to the finder nor to the proprietor of the land, unless the right to it had been conveyed to the latter by an express clause in his charter. It was put upon the same footing with gold and silver mines, which, without a special clause in the charter, were never supposed to be comprehended in the general grant of the lands, though mines of lead, copper, tin, and coal were, as things of smaller consequence.



## C H A P. I I.

*Of Money considered as a particular Branch of the general Stock of the Society, or of the Expense of maintaining the National Capital.*

**I**T has been shown in the first Book, that the price of the greater part of commodities resolves itself into three parts, of which one pays the wages of the labor, another the profits of the stock, and a third the rent of the land which had been employed in producing and bringing them to market: that there are, indeed, some commodities of which the price is made up of two of those parts only, the wages of labor, and the profits of stock: and a very few in which it consists altogether in one, the wages of labor: but that the price of every commodity necessarily resolves itself into some one, or other, or all of these three parts; every part of it which goes neither to rent nor to wages, being necessarily profit to somebody.

Since this is the case, it has been observed, with regard to every particular commodity, taken separately; it must be so with regard to all the commodities which compose the whole annual produce of the land and labor of every country, taken complexly. The whole price or exchangeable value of that annual produce, must resolve itself into the same three parts, and be parcelled out among the different inhabitants of



the country, either as the wages of their labor, the profits of their stock, or the rent of their land.

But though the whole value of the annual produce of the land and labor of every country is thus divided among and constitutes a revenue to its different inhabitants, yet as in the rent of a private estate we distinguish between the gross rent and the neat rent, so may we likewise in the revenue of all the inhabitants of a great country.

The gross rent of a private estate comprehends whatever is paid by the farmer; the neat rent, what remains free to the landlord, after deducting the expense of management, of repairs, and all other necessary charges; or what, without hurting his estate, he can afford to place in his stock reserved for immediate consumption, or to spend upon his table, equipage, the ornaments of his house and furniture, his private enjoyments and amusements. His real wealth is in proportion, not to his gross, but to his neat rent.

The gross revenue of all the inhabitants of a great country, comprehends the whole annual produce of their land and labor; the neat revenue, what remains free to them after deducting the expense of maintaining; first, their fixed; and, secondly, their circulating capital; or what, without encroaching upon their capital, they can place in their stock reserved for immediate consumption, or spend upon their subsistence, conveniences, and amusements. Their real wealth



too is in proportion, not to their gross, but to their neat revenue.

The whole expense of maintaining the fixed capital, must evidently be excluded from the neat revenue of the society. Neither the materials necessary for supporting their useful machines and instruments of trade, their profitable buildings, &c. nor the produce of the labor necessary for fashioning those materials into the proper form, can ever make any part of it. The price of that labor may indeed make a part of it; as the workmen so employed may place the whole value of their wages in their stock reserved for immediate consumption. But in other sorts of labor, both the price and the produce go to this stock, the price to that of the workmen, the produce to that of other people, whose subsistence, conveniencies, and amusements, are augmented by the labor of those workmen.

The intention of the fixed capital is to increase the productive powers of labor, or to enable the same number of laborers to perform a much greater quantity of work. In a farm where all the necessary buildings, fences, drains, communications, &c. are in the most perfect good order, the same number of laborers and laboring cattle will raise a much greater produce, than in one of equal extent and equally good ground, but not furnished with equal conveniencies. In manufactures the same number of hands, assisted with the best machinery, will work up a much greater quantity of goods than with more imperfect instruments of trade. The expense which is properly laid out upon a fixed



capital of any kind, is always repaid with great profit, and increases the annual produce by a much greater value than that of the support which such improvements require. This support, however, still requires a certain portion of that produce. A certain quantity of materials, and the labor of a certain number of workmen, both of which might have been immediately employed to augment the food, clothing and lodging, the subsistence and conveniences of the society, are thus diverted to another employment, highly advantageous indeed, but still different from this one. It is upon this account that all such improvements in mechanics, as enable the same number of workmen to perform an equal quantity of work, with cheaper and simpler machinery than had been usual before, are always regarded as advantageous to every society. A certain quantity of materials, and the labor of a certain number of workmen, which had before been employed in supporting a more complex and expensive machinery, can afterwards be applied to augment the quantity of work which that or any other machinery is useful only for performing. The undertaker of some great manufactory who employs a thousand a-year in the maintenance of his machinery, if he can reduce this expense to five hundred, will naturally employ the other five hundred in purchasing an additional quantity of materials to be wrought up by an additional number of workmen. The quantity of that work, therefore, which his machinery was useful only for performing, will naturally be augmented, and with



it all the advantage and conveniency which the society can derive from that work.

The expence of maintaining the fixed capital in a great country, may very properly be compared to that of repairs in a private estate. The expence of repairs may frequently be necessary for supporting the produce of the estate, and consequently both the gross and the neat rent of the landlord. When by a more proper direction, however, it can be diminished without occasioning any diminution of produce, the gross rent remains at least the same as before, and the neat rent is necessarily augmented.

But though the whole expence of maintaining the fixed capital is thus necessarily excluded from the neat revenue of the society, it is not the same case with that of maintaining the circulating capital. Of the four parts of which this latter capital is composed, money, provisions, materials, and finished work, the three last, it has already been observed, are regularly withdrawn from it, and placed either in the fixed capital of the society, or in their stock reserved for immediate consumption. Whatever portion of those consumable goods is not employed in maintaining the former, goes all to the latter, and makes a part of the neat revenue of the society. The maintenance of those three parts of the circulating capital, therefore, withdraws no portion of the annual produce from the neat revenue of the society, besides what is necessary for maintaining the fixed capital.



The circulating capital of a society is in this respect different from that of an individual. That of an individual is totally excluded from making any part of his neat revenue, which must consist altogether in his profits. But though the circulating capital of every individual makes a part of that of the society to which he belongs, it is not upon that account totally excluded from making a part likewise of their neat revenue. Though the whole goods in a merchant's shop must by no means be placed in his own stock reserved for immediate consumption, they may in that of other people, who, from a revenue derived from other funds, may regularly replace their value to him, together with its profits, without occasioning any diminution either of his capital or of theirs.

Money, therefore, is the only part of the circulating capital of a society, of which the maintenance can occasion any diminution in their neat revenue.

The fixed capital, and that part of the circulating capital which consists in money, so far as they affect the revenue of the society, bear a very great resemblance to one another.

First, as those machines and instruments of trade, &c. require a certain expense, first to erect them, and afterwards to support them, both which expenses, though they make a part of the gross, are deductions from the neat revenue of the society; so the stock of money which circulates in any country must require a certain expense, first to collect it, and afterwards to support



it, both which expenses, though they make a part of the gross, are, in the same manner, deductions from the neat revenue of the society. A certain quantity of very valuable materials, gold and silver, and of very curious labor, instead of augmenting the stock reserved for immediate consumption, the subsistence, conveniencies, and amusements of individuals, is employed in supporting that great but expensive instrument of commerce, by means of which every individual in the society has his subsistence, conveniencies, and amusements, regularly distributed to him in their proper proportions.

Secondly, as the machines and instruments of trade, &c. which compose the fixed capital either of an individual or of a society, make no part either of the gross or of the neat revenue of either; so money, by means of which the whole revenue of the society is regularly distributed among all its different members, makes itself no part of that revenue. The great wheel of circulation is altogether different from the goods which are circulated by means of it. The revenue of the society consists altogether in those goods, and not in the wheel which circulates them. In computing either the gross or neat revenue of any society, we must always, from their whole annual circulation of money and goods, deduct the whole value of the money, of which not a single farthing can ever make any part of either.

It is the ambiguity of language only which can make this proposition appear either doubtful



or paradoxical. When properly explained and understood, it is almost self-evident.

When we talk of any particular sum of money, we sometimes mean nothing but the metal pieces of which it is composed; and sometimes we include in our meaning some obscure reference to the goods which can be had in exchange for it, or to the power of purchasing which the possession of it conveys. Thus when we say, that the circulating money of England has been computed at eighteen millions, we mean only to express the amount of the metal pieces, which some writers have computed, or rather have supposed to circulate in that country. But when we say that a man is worth fifty or a hundred pounds a year, we mean commonly to express not only the amount of the metal pieces which are annually paid to him, but the value of the goods which he can annually purchase or consume. We mean commonly to ascertain what is or ought to be his way of living, or the quantity and quality of the necessaries and conveniencies of life in which he can with propriety indulge himself.

When, by any particular sum of money, we mean not only to express the amount of the metal pieces of which it is composed, but to include in its signification some obscure reference to the goods which can be had in exchange for them, the wealth or revenue which it in this case denotes, is equal only to one of the two values which are thus intimated somewhat ambiguously by the same word, and to the latter more properly than to the former, to the money's worth more properly than to the money.



Thus if a guinea be the weekly pension of a particular person, he can in the course of the week purchase with it a certain quantity of subsistence, conveniencies, and amusements. In proportion as this quantity is great or small, so are his real riches, his real weekly revenue. His weekly revenue is certainly not equal both to the guinea, and to what can be purchased with it, but only to one or other of those two equal values; and to the latter more properly than to the former, to the guinea's worth rather than to the guinea.

If the pension of such a person was paid to him, not in gold, but in a weekly bill for a guinea, his revenue surely would not so properly consist in the piece of paper, as in what he could get for it. A guinea may be considered as a bill for a certain quantity of necessaries and conveniencies upon all the tradesmen in the neighbourhood. The revenue of the person to whom it is paid, does not so properly consist in the piece of gold, as in what he can get for it, or in what he can exchange it for. If it could be exchanged for nothing, it would, like a bill upon a bankrupt, be of no more value than the most useless piece of paper.

Though the weekly, or yearly revenue of all the different inhabitants of any country, in the same manner, may be, and in reality frequently is paid to them in money, their real riches, however, the real weekly or yearly revenue of all of them taken together, must always be great or small in proportion to the quantity of consumable goods



which they can all of them purchase with this money. The whole revenue of all of them taken together is evidently not equal to both the money and the consumable goods; but only to one or other of those two values, and to the latter more properly than to the former.

Though we frequently, therefore, express a person's revenue by the metal pieces which are annually paid to him, it is because the amount of those pieces regulates the extent of his power of purchasing, or the value of the goods which he can annually afford to consume. We still consider his revenue as consisting in this power of purchasing or consuming, and not in the pieces which convey it.

But if this is sufficiently evident even with regard to an individual, it is still more so with regard to a society. The amount of the metal pieces which are annually paid to an individual, is often precisely equal to his revenue, and is upon that account the shortest and best expression of its value. But the amount of the metal pieces which circulate in a society, can never be equal to the revenue of all its members. As the same guinea which pays the weekly pension of one man to-day, may pay that of another to-morrow, and that of a third the day thereafter, the amount of the metal pieces which annually circulate in any country, must always be of much less value than the whole money pensions annually paid with them. But the power of purchasing, or the goods which can successively be bought with the whole of those money



pensions as they are successively paid, must always be precisely of the same value with those pensions; as must likewise be the revenue of the different persons to whom they are paid. That revenue, therefore, cannot consist in those metal pieces, of which the amount is so much inferior to its value, but in the power of purchasing, in the goods which can successively be bought with them as they circulate from hand to hand.

Money, therefore, the great wheel of circulation, the great instrument of commerce, like all other instruments of trade, though it makes a part and a very valuable part of the capital, makes no part of the revenue of the society to which it belongs; and though the metal pieces of which it is composed, in the course of their annual circulation, distribute to every man the revenue which properly belongs to him, they make themselves no part of that revenue.

Thirdly, and lastly, the machines and instruments of trade, &c. which compose the fixed capital, bear this further resemblance to that part of the circulating capital which consists in money; that as every saving in the expense of erecting and supporting those machines, which does not diminish the productive powers of labor, is an improvement of the neat revenue of the society; so every saving in the expense of collecting and supporting that part of the circulating capital which consists in money, is an improvement of exactly the same kind.

It is sufficiently obvious, and it has partly too been explained already, in what manner every saving in the expense of supporting the fixed capital



is an improvement of the neat revenue of the society. The whole capital of the undertaker of every work is necessarily divided between his fixed and his circulating capital. While his whole capital remains the same, the smaller the one part, the greater must necessarily be the other. It is the circulating capital which furnishes the materials and wages of labor, and puts industry into motion. Every saving, therefore, in the expense of maintaining the fixed capital, which does not diminish the productive powers of labor, must increase the fund which puts industry into motion, and consequently the annual produce of land and labor, the real revenue of every society.

The substitution of paper in the room of gold and silver money, replaces a very expensive instrument of commerce with one much less costly, and sometimes equally convenient. Circulation comes to be carried on by a new wheel, which it costs less both to erect and to maintain than the old one. But in what manner this operation is performed, and in what manner it tends to increase either the gross or the neat revenue of the society, is not altogether so obvious, and may therefore require some further explication.

There are several different sorts of paper money; but the circulating notes of banks and bankers are the species which is best known, and which seems best adapted for this purpose.

When the people of any particular country have such confidence in the fortune, probity, and prudence of a particular banker, as to believe that



he is always ready to pay upon demand such of his promissory notes as are likely to be at any time presented to him; those notes come to have the same currency as gold and silver money, from the confidence that such money can at any time be had for them.

A particular banker lends among his customers his own promissory notes, to the extent, we shall suppose, of a hundred thousand pounds. As those notes serve all the purposes of money, his debtors pay him the same interest as if he had lent them so much money. This interest is the source of his gain. Though some of those notes are continually coming back upon him for payment, part of them continue to circulate for months and years together. Though he has generally in circulation, therefore, notes to the extent of a hundred thousand pounds, twenty thousand pounds in gold and silver may, frequently be a sufficient provision for answering occasional demands. By this operation, therefore, twenty thousand pounds in gold and silver perform all the functions which a hundred thousand could otherwise have performed. The same exchanges may be made, the same quantity of consumable goods may be circulated and distributed to their proper consumers, by means of his promissory notes, to the value of a hundred thousand pounds, as by an equal value of gold and silver money. Eighty thousand pounds of gold and silver, therefore, can, in this manner, be spared from the circulation of the country; and if different operations of the same kind should, at the same



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time, be carried on by many different banks and bankers, the whole circulation may thus be conducted with a fifth part only of the gold and silver which would otherwise have been requisite.

Let us suppose, for example, that the whole circulating money of some particular country amounted, at a particular time, to one million sterling, that sum being then sufficient for circulating the whole annual produce of their land and labor. Let us suppose too, that some time thereafter, different banks and bankers issued promissory notes, payable to the bearer, to the extent of one million, reserving in their different coffers two hundred thousand pounds for answering occasional demands. There would remain, therefore, in circulation, eight hundred thousand pounds in gold and silver, and a million of bank notes, or eighteen hundred thousand pounds of paper and money together. But the annual produce of the land and labor of the country had before required only one million to circulate and distribute it to its proper consumers, and that annual produce cannot be immediately augmented by those operations of banking. One million, therefore, will be sufficient to circulate it after them. The goods to be bought and sold being precisely the same as before, the same quantity of money will be sufficient for buying and selling them. The channel of circulation, if I may be allowed such an expression, will remain precisely the same as before. One million we have supposed sufficient to fill that channel. Whatever, therefore, is poured



into it beyond this sum, cannot run in it, but must overflow. One million eight hundred thousand pounds are poured into it. Eight hundred thousand pounds, therefore, must overflow, that sum being over and above what can be employed in the circulation of the country. But though this sum cannot be employed at home, it is too valuable to be allowed to lie idle. It will, therefore, be sent abroad, in order to seek that profitable employment which it cannot find at home. But the paper cannot go abroad; because at a distance from the banks which issue it, and from the country in which payment of it can be exacted by law, it will not be received in common payments. Gold and silver, therefore, to the amount of eight hundred thousand pounds will be sent abroad, and the channel of home circulation will remain filled with a million of paper, instead of the million of those metals which filled it before.

But though so great a quantity of gold and silver is thus sent abroad, we must not imagine that it is sent abroad for nothing, or that its proprietors make a present of it to foreign nations. They will exchange it for foreign goods of some kind or another, in order to supply the consumption either of some other foreign country, or of their own.

If they employ it in purchasing goods in one foreign country in order to supply the consumption of another, or in what is called the carrying trade, whatever profit they make will be an addition to



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the neat revenue of their own country. It is like a new fund, created for carrying on a new trade; domestic business being now transacted by paper, and the gold and silver being converted into a fund for this new trade.

If they employ it in purchasing foreign goods for home consumption, they may either, first, purchase such goods as are likely to be consumed by idle people who produce nothing, such as foreign wines, foreign silks, &c.; or, secondly, they may purchase an additional stock of materials, tools, and provisions, in order to maintain and employ an additional number of industrious people, who re-produce, with a profit, the value of their annual consumption.

So far as it is employed in the first way, it promotes prodigality, increases expense and consumption without increasing production, or establishing any permanent fund for supporting that expense, and is in every respect hurtful to the society.

So far as it is employed in the second way, it promotes industry; and though it increases the consumption of the society, it provides a permanent fund for supporting that consumption, the people who consume re-producing, with a profit, the whole value of their annual consumption. The gross revenue of the society, the annual produce of their land and labor, is increased by the whole value which the labor of those workmen adds to the materials upon which they are employed; and their neat revenue by what remains of this value, after deducting what is  
necessary



necessary for supporting the tools and instruments of their trade.

That the greater part of the gold and silver which, being forced abroad by those operations of banking, is employed in purchasing foreign goods for home consumption, is and must be employed in purchasing those of its second kind, seems not only probable but almost unavoidable. Though some particular men may sometimes increase their expense very considerably though their revenue does not increase at all, we may be assured that no class or order of men ever does so; because, though the principles of common prudence do not always govern the conduct of every individual, they always influence that of the majority of every class or order. But the revenue of idle people, considered as a class or order, cannot, in the smallest degree, be increased by those operations of banking. Their expense in general, therefore, cannot be much increased by them, though that of a few individuals among them may, and in reality sometimes is. The demand of idle people, therefore, for foreign goods, being the same, or very nearly the same, as before, a very small part of the money, which being forced abroad by those operations of banking, is employed in purchasing foreign goods for home consumption, is likely to be employed in purchasing those for their use. The greater part of it will naturally be destined for the employment of industry, and not for the maintenance of idleness.



When we compute the quantity of industry which the circulating capital of any society can employ, we must always have regard to those parts of it only, which consist in provisions, materials, and finished work, the other, which consists in money, and which serves only to circulate those three, must always be deducted. In order to put industry into motion, three things are requisite; materials to work upon, tools to work with, and the wages or recompence for the sake of which the work is done. Money is neither a material to work upon, nor a tool to work with; and though the wages of the workman are commonly paid to him in money, his real revenue, like that of all other men, consists, not in the money, but in the money's worth; not in the metal pieces, but in what can be got for them.

The quantity of industry which any capital can employ, must, evidently, be equal to the number of workmen whom it can supply with materials, tools, and a maintenance suitable to the nature of the work. Money may be requisite for purchasing the materials and tools of the work, as well as the maintenance of the workmen. But the quantity of industry which the whole capital can employ, is certainly not equal both to the money which purchases, and to the materials, tools, and maintenance, which are purchased with it; but only to one or other of those two values, and to the latter more properly than to the former.



When paper is substituted in the room of gold and silver money, the quantity of the materials, tools and maintenance, which the whole circulating capital can supply, may be increased by the whole value of gold and silver which used to be employed in purchasing them. The whole value of the great wheel of circulation and distribution, is added to the goods which are circulated and distributed by means of it. The operation, in some measure, resembles that of the undertaker of some great work, who, in consequence of some improvement in mechanics, takes down his old machinery, and adds the difference between its price and that of the new to his circulating capital, to the fund from which he furnishes materials and wages to his workmen.

What is the proportion which the circulating money of any country bears to the whole value of the annual produce circulated by means of it, it is, perhaps, impossible to determine. It has been computed by different authors at a fifth, at a tenth, at a twentieth, and at a thirtieth part of that value. But how small soever the proportion which the circulating money may bear to the whole value of the annual produce, as but a part, and frequently but a small part, of that produce, is ever destined for the maintenance of industry, it must always bear a very considerable proportion to that part. When, therefore, by the substitution of paper, the gold and silver necessary for circulation is reduced to perhaps, a fifth part of the former quantity, if the value of only the greater part of the other four-fifths



be added to the funds which are destined for the maintenance of industry, it must make a very considerable addition to the quantity of that industry, and consequently, to the value of the annual produce of land and labor.

An operation of this kind has, within these five-and-twenty or thirty years, been performed in Scotland, by the erection of new banking companies in almost every considerable town, and even in some country villages. The effects of it have been precisely those above described. The business of the country is almost entirely carried on by means of the paper of those different banking companies, with which purchases and payments of all kinds are commonly made. Silver very seldom appears except in the change of a twenty shillings bank note, and gold still seldom. But though the conduct of all those different companies has not been unexceptionable, and has accordingly required an act of parliament to regulate it; the country, notwithstanding, has evidently derived great benefit from their trade. I have heard it asserted, that the trade of the city of Glasgow doubled in about fifteen years after the first erection of the banks there; and that the trade of Scotland has more than quadrupled since the first erection of the two public banks at Edinburgh, of which the one, called The Bank of Scotland, was established by act of parliament in 1695; the other, called The Royal Bank, by royal charter in 1727. Whether the trade, either of Scotland in general, or of the city of Glasgow in



particular, has really increased in so great a proportion, during so short a period, I do not pretend to know. If either of them has increased in this proportion, it seems to be an effect too great to be accounted for by the sole operation of this cause. That the trade and industry of Scotland, however, have increased very considerably during this period, and that the banks have contributed a good deal to this increase, cannot be doubted.

The value of the silver money which circulated in Scotland before the union, in 1707, and which, immediately after it, was brought into the bank of Scotland in order to be re-coined, amounted to 411,117 *l.* 10 *s.* 9 *d.* sterling. No account has been got of the gold coin; but it appears from the ancient accounts of the mint of Scotland, that the value of the gold annually coined somewhat exceeded that of the silver \*. There were a good many people too upon this occasion, who, from a diffidence of repayment, did not bring their silver into the bank of Scotland: and there was, besides, some English coin, which was not called in. The whole value of the gold and silver, therefore, which circulated in Scotland before the union, cannot be estimated at less than a million sterling. It seems to have constituted almost the whole circulation of that country; for though the circulation of the bank of Scotland, which had then no rival, was considerable, it seems to have made but a very small part of the whole. In the present times

\* See Ruddiman's Preface to Anderson's *Diplomata*, &c. *Scotiæ*.



the whole circulation of Scotland cannot be estimated at less than two millions, of which that part which consists in gold and silver, most probably, does not amount to half a million. But though the circulating gold and silver of Scotland have suffered so great a diminution during this period, its real riches and prosperity do not appear to have suffered any. Its agriculture, manufactures, and trade, on the contrary, the annual produce of its land and labor, have evidently been augmented.

It is chiefly by discounting bills of exchange, that is, by advancing money upon them before they are due, that the greater part of banks and bankers issue their promissory notes. They deduct always, upon whatever sum they advance, the legal interest till the bill shall become due. The payment of the bill, when it becomes due, replaces to the bank the value of what had been advanced, together with a clear profit of the interest. The banker who advances to the merchant whose bill he discounts, not gold and silver, but his own promissory notes, has the advantage of being able to discount to a greater amount, by the whole value of his promissory notes, which he finds by experience, are commonly in circulation. He is thereby enabled to make his clear gain of interest on so much a larger sum.

The commerce of Scotland, which at present is not very great, was still more inconsiderable when the two first banking companies were established; and those companies would have had but little trade, had they confined their business



to the discounting of bills of exchange. They invented, therefore, another method of issuing their promissory notes ; by granting, what they called, cash accounts, that is by giving credit to the extent of a certain sum (two or three thousand pounds, for example), to any individual who could procure two persons of undoubted credit and good landed estate to become surety for him, that whatever money should be advanced to him, within the sum for which the credit had been given, should be repaid upon demand, together with the legal interest. Credits of this kind are, I believe, commonly granted by banks and bankers in all different parts of the world. But the easy terms upon which the Scotch banking companies accept of re-payment are, so far as I know, peculiar to them, and have, perhaps, been the principal cause, both of the great trade of those companies, and of the benefit which the country has received from it.

Whoever has a credit of this kind with one of those companies, and borrows a thousand pounds upon it, for example, may repay this sum piece-meal, by twenty and thirty pounds at a time, the company discounting a proportionable part of the interest of the great sum from the day on which each of those small sums is paid in, till the whole be in this manner repaid. All merchants, therefore, and almost all men of business, find it convenient to keep such cash accounts with them, and are thereby interested to promote the trade of those companies, by readily receiving their notes in all payments,



and by encouraging all those with whom they have any influence to do the same. The banks, when their customers apply to them for money, generally advance it to them in their own promissory notes. These the merchants pay away to the manufacturers for goods, the manufacturers to the farmers for materials and provisions, the farmers to their landlords for rent, the landlords repay them to the merchants for the conveniencies and luxuries with which they supply them, and the merchants again return them to the banks in order to balance their cash accounts, or to replace what they may have borrowed of them; and thus almost the whole money business of the country is transacted by means of them. Hence the great trade of those companies.

By means of those cash accounts every merchant can, without imprudence, carry on a greater trade than he otherwise could do. If there are two merchants, one in London, and the other in Edinburgh, who employ equal stocks in the same branch of trade, the Edinburgh merchant can, without imprudence, carry on a greater trade, and give employment to a greater number of people than the London merchant. The London merchant must always keep by him a considerable sum of money, either in his own coffers, or in those of his banker, who gives him no interest for it, in order to answer the demands continually coming upon him for payment of the goods which he purchases upon credit. Let the ordinary amount of this sum be supposed five



hundred pounds. The value of the goods in his warehouse must always be less by five hundred pounds than it would have been, had he not been obliged to keep such a sum unemployed. Let us suppose that he generally disposes of his whole stock upon hand, or of goods to the value of his whole stock upon hand, once in the year. By being obliged to keep so great a sum unemployed, he must sell in a year five hundred pounds worth less goods than he might otherwise have done. His annual profits must be less by all that he could have made by the sale of five hundred pounds worth more goods; and the number of people employed in preparing his goods for the market, must be less by all those that five hundred pounds more stock could have employed. The merchant in Edinburgh, on the other hand, keeps no money unemployed for answering such occasional demands. When they actually come upon him, he satisfies them from his cash account with the bank, and gradually replaces the sum borrowed with the money or paper which comes in from the occasional sales of his goods. With the same stock, therefore, he can, without imprudence, have at all times in his warehouse a larger quantity of goods than the London merchant; and can thereby both make a greater profit himself, and give constant employment to a greater number of industrious people who prepare those goods for the market. Hence the great benefit which the country has derived from this trade.



The facility of discounting bills of exchange, it may be thought indeed, gives the English merchants a conveniency equivalent to the cash accounts of the Scotch merchants. But the Scotch merchants, it must be remembered, can discount their bills of exchange as easily as the English merchants, and have, besides, the additional conveniency of their cash accounts.

The whole paper money of every kind which can easily circulate in any country never can exceed the value of the gold and silver, of which it supplies the place, or which (the commerce being supposed the same) would circulate there, if there was no paper money. If twenty shilling notes, for example, are the lowest paper money current in Scotland, the whole of that currency which can easily circulate there cannot exceed the sum of gold and silver which would be necessary for transacting the annual exchanges of twenty shillings value and upwards usually transacted within that country. Should the circulating paper at any time exceed that sum, as the excess could neither be sent abroad nor be employed in the circulation of the country, it must immediately return upon the banks to be exchanged for gold and silver. Many people would immediately perceive that they had more of this paper than was necessary for transacting their business at home, and as they could not send it abroad, they would immediately demand payment of it from the banks. When this superfluous paper was converted into gold and silver, they could easily find a use for it by sending it



abroad ; but they could find none while it remained in the shape of paper. There would immediately, therefore, be a run upon the banks to the whole extent of this superfluous paper, and, if they showed any difficulty or backwardness in payment, to a much greater extent; the alarm, which this would occasion, necessarily increasing the run.

Over and above the expenses which are common to every branch of trade; such as the expense of house-rent, the wages of servants, clerks, accountants, &c.; the expenses peculiar to a bank consist chiefly in two articles: First, in the expense of keeping at all times in its coffers, for answering the occasional demands of the holders of its notes, a large sum of money, of which it loses the interest: And, secondly, in the expense of replenishing those coffers as fast as they are emptied by answering such occasional demands.

A banking company, which issues more paper than can be employed in the circulation of the country, and of which the excess is continually returning upon them for payment, ought to increase the quantity of gold and silver, which they keep at all times in their coffers, not only in proportion to this excessive increase of their circulation, but in a much greater proportion; their notes returning upon them much faster than in proportion to the excess of their quantity. Such a company, therefore, ought to increase the first article of their expense, not only



in proportion to this forced increase of their business, but in a much greater proportion.

The coffers of such a company too, though they ought to be filled much fuller, yet must empty themselves much faster than if their business was confined within more reasonable bounds, and must require, not only a more violent, but a more constant and uninterrupted exertion of expense in order to replenish them. The coin too, which is thus continually drawn in such large quantities from their coffers, cannot be employed in the circulation of the country. It comes in place of a paper which is over and above what can be employed in that circulation, and is therefore over and above what can be employed in it too. But as that coin will not be allowed to lie idle, it must, in one shape or another, be sent abroad, in order to find that profitable employment which it cannot find at home; and this continual exportation of gold and silver, by enhancing the difficulty, must necessarily enhance still further the expense of the bank, in finding new gold and silver in order to replenish those coffers, which empty themselves so very rapidly. Such a company, therefore, must, in proportion to this forced increase of their business, increase the second article of their expense still more than the first.

Let us suppose that all the paper of a particular bank, which the circulation of the country can easily absorb and employ, amounts exactly to forty thousand pounds; and that for answering



occasional demands, this bank is obliged to keep at all times in its coffers ten thousand pounds in gold and silver. Should this bank attempt to circulate forty-four thousand pounds, the four thousand pounds which are over and above what the circulation can easily absorb and employ, will return upon it almost as fast as they are issued. For answering occasional demands, therefore, this bank ought to keep at all times in its coffers, not eleven thousand pounds only, but fourteen thousand pounds. It will thus gain nothing by the interest of the four thousand pounds excessive circulation; and it will lose the whole expense of continually collecting four thousand pounds in gold and silver, which will be continually going out of its coffers as fast as they are brought into them.

Had every particular banking company always understood and attended to its own particular interest, the circulation never could have been overstocked with paper money. But every particular banking company has not always understood or attended to its own particular interest, and the circulation has frequently been overstocked with paper money.

By issuing too great a quantity of paper, of which the excess was continually returning, in order to be exchanged for gold and silver, the bank of England was for many years together obliged to coin gold to the extent of between eight hundred thousand pounds and a million a year; or at an average, about eight hundred and fifty thousand pounds. For this great coinage



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the bank (in consequence of the worn and degraded state into which the gold coin had fallen a few years ago) was frequently obliged to purchase gold bullion at the high price of four pounds an ounce, which it soon after issued in coin at 3*l.* 17*s.* 10½*d.* an ounce, losing in this manner between two and a half and three per cent. upon the coinage of so very large a sum. Though the bank therefore paid no seignorage, though the government was properly at the expense of the coinage, this liberality of government did not prevent altogether the expense of the bank.

The Scotch banks, in consequence of an excess of the same kind, were all obliged to employ constantly agents at London to collect money for them, at an expense which was seldom below one and a half or two per cent. This money was sent down by the waggon, and insured by the carriers at an additional expense of three quarters per cent. or fifteen shillings on the hundred pounds. Those agents were not always able to replenish the coffers of their employers so fast as they were emptied. In this case the resource of the banks was, to draw upon their correspondents in London bills of exchange to the extent of the sum which they wanted. When those correspondents afterwards drew upon them for the payment of this sum, together with the interest and a commission, some of those banks, from the distress into which their excessive circulation had thrown them, had sometimes no other means of satisfying this draught but by



drawing a second set of bills either upon the same, or upon some other correspondents in London; and the same sum, or rather bills for the same sum, would in this manner make sometimes more than two or three journies; the debtor, bank, paying always the interest and commission upon the whole accumulated sum. Even those Scotch banks which never distinguished themselves by their extreme imprudence, were sometimes obliged to employ this ruinous resource.

The gold coin which was paid out either by the bank of England, or by the Scotch banks, in exchange for that part of their paper which was over and above what could be employed in the circulation of the country, being likewise over and above what could be employed in that circulation, was sometimes sent abroad in the shape of coin, sometimes melted down and sent abroad in the shape of bullion, and sometimes melted down and sold to the bank of England at the high price of four pounds an ounce. It was the newest, the heaviest, and the best pieces only which were carefully picked out of the whole coin, and either sent abroad or melted down. At home, and while they remained in the shape of coin, those heavy pieces were of no more value than the light: But they were of more value abroad, or when melted down into bullion, at home. The bank of England, notwithstanding their great annual coinage, found to their astonishment, that there was every year the same scarcity of coin as there had been the year before;



and that notwithstanding the great quantity of good and new coin which was every year issued from the bank, the state of the coin, instead of growing better and better, became every year worse and worse. Every year they found themselves under the necessity of coining nearly the same quantity of gold as they had coined the year before, and from the continual rise in the price of gold bullion, in consequence of the continual wearing and clipping of the coin, the expense of this great annual coinage became every year greater and greater. The bank of England, it is to be observed, by supplying its own coffers with coin, is indirectly obliged to supply the whole kingdom, into which coin is continually flowing from those coffers in a great variety of ways. Whatever coin therefore was wanted to support this excessive circulation both of Scotch and English paper money, whatever vacuities this excessive circulation occasioned in the necessary coin of the kingdom, the bank of England was obliged to supply them. The Scotch banks, no doubt, paid all of them very dearly for their own imprudence and inattention. But the bank of England paid very dearly, not only for its own imprudence, but for the much greater imprudence of almost all the Scotch banks.

The over-trading of some bold projectors in both parts of the united kingdom, was the original cause of this excessive circulation of paper money.

What a bank can with propriety advance to a merchant or undertaker of any kind, is not  
either



either the whole capital with which he trades, or even any considerable part of that capital; but that part of it only, which he would otherwise be obliged to keep by him unemployed, and in ready money for answering occasional demands. If the paper money which the bank advances never exceeds this value, it can never exceed the value of the gold and silver, which would necessarily circulate in the country if there was no paper money; it can never exceed the quantity which the circulation of the country can easily absorb and employ.

When a bank discounts to a merchant a real bill of exchange drawn by a real creditor upon a real debtor, and which, as soon as it becomes due, is really paid by that debtor; it only advances to him a part of the value which he would otherwise be obliged to keep by him unemployed and in ready money for answering occasional demands. The payment of the bill, when it becomes due, replaces to the bank the value of what it had advanced, together with the interest. The coffers of the bank, so far as its dealings are confined to such customers, resemble a water pond, from which, though a stream is continually running out, yet another is continually running in, fully equal to that which runs out; so that, without any further care or attention, the pond keeps always equally, or very near equally full. Little or no expense can ever be necessary for replenishing the coffers of such a bank.



A merchant, without over-trading, may frequently have occasion for a sum of ready money, even when he has no bills to discount. When a bank, besides discounting his bills, advances him likewise upon such occasions, such sums upon his cash account, and accepts of a piece-meal repayment as the money comes in from the occasional sale of his goods, upon the easy terms of the banking companies of Scotland; it dispenses him entirely from the necessity of keeping any part of his stock by him unemployed and in ready money for answering occasional demands. When such demands actually come upon him, he can answer them sufficiently from his cash account. The bank, however, in dealing with such customers, ought to observe with great attention, whether in the course of some short period (of four, five, six, or eight months, for example) the sum of the repayments which it commonly receives from them, is, or is not, fully equal to that of the advances which it commonly makes to them. If, within the course of such short periods, the sum of the repayments from certain customers is, upon most occasions, fully equal to that of the advances, it may safely continue to deal with such customers. Though the stream which is in this case continually running out from its coffers may be very large, that which is continually running into them must be at least equally large; so that without any further care or attention those coffers are likely to be always equally or very near equally full; and



scarce ever to require any extraordinary expence to replenish them. If, on the contrary, the sum of the repayments from certain other customers falls commonly very much short of the advances which it makes to them, it cannot with any safety continue to deal with such customers, at least if they continue to deal with it in this manner. The stream which is in this case continually running out from its coffers is necessarily much larger than that which is continually running in ; so that, unless they are replenished by some great and continual effort of expence, those coffers must soon be exhausted altogether.

The banking companies of Scotland, accordingly, were for a long time very careful to require frequent and regular repayments from all their customers, and did not care to deal with any person, whatever might be his fortune or credit, who did not make, what they called, frequent and regular operations with them. By this attention, besides saving almost entirely the extraordinary expence of replenishing their coffers, they gained two other very considerable advantages.

First, by this attention they were enabled to make some tolerable judgment concerning the thriving or declining circumstances of their debtors, without being obliged to look out for any other evidence besides what their own books afforded them ; men being for the most part either regular or irregular in their repayments according as their circumstances are either thriving



or declining. A private man who lends out his money to perhaps half a dozen or a dozen of debtors, may, either by himself or his agents, observe and inquire both constantly and carefully into the conduct and situation of each of them. But a banking company, which lends money to perhaps five hundred different people, and of which the attention is continually occupied by objects of a very different kind, can have no regular information concerning the conduct and circumstances of the greater part of its debtors beyond what its own books afford it. In requiring frequent and regular repayments from all their customers, the banking companies of Scotland had probably this advantage in view.

Secondly, by this attention they secured themselves from the possibility of issuing more paper money than what the circulation of the country could easily absorb and employ. When they observed, that within moderate periods of time the repayments of a particular customer were upon most occasions fully equal to the advances which they had made to him, they might be assured that the paper money which they had advanced to him, had not at any time exceeded the quantity of gold and silver which he would otherwise have been obliged to keep by him for answering occasional demands; and that, consequently, the paper money, which they had circulated by his means, had not at any time exceeded the quantity of gold and silver which would have circulated in the country, had there been no paper money. The frequency, regularity



and amount of his repayments would sufficiently demonstrate that the amount of their advances had at no time exceeded that part of his capital which he would otherwise have been obliged to keep by him unemployed and in ready money for answering occasional demands ; that is , for the purpose of keeping the rest of his capital in constant employment. It is this part of his capital only which , within moderate periods of time , is continually returning to every dealer in the shape of money , whether paper or coin , and continually going from him in the same shape. If the advances of the bank had commonly exceeded this part of his capital , the ordinary amount of his repayments could not , within moderate periods of time , have equalled the ordinary amount of its advances. The stream which , by means of his dealings , was continually running into the coffers of the bank , could not have been equal to the stream which , by means of the same dealings , was continually running out. The advances of the bank paper , by exceeding the quantity of gold and silver which , had there been no such advances , he would have been obliged to keep by him for answering occasional demands , might soon come to exceed the whole quantity of gold and silver which ( the commerce being supposed the same ) would have circulated in the country had there been no paper money ; and consequently to exceed the quantity which the circulation of the country could easily absorb and employ ; and the excess of this paper money would immediately



have returned upon the bank in order to be exchanged for gold and silver. This second advantage, though equally real, was not perhaps so well understood by all the different banking companies of Scotland as the first.

When, partly by the conveniency of discounting bills, and partly by that of cash accounts, the creditable traders of any country can be dispensed from the necessity of keeping any part of their stock by them unemployed and in ready money for answering occasional demands, they can reasonably expect no farther assistance from banks and bankers, who, when they have gone thus far, cannot, consistently with their own interest and safety, go farther. A bank cannot, consistently with its own interest, advance to a trader the whole or even the greater part of the circulating capital with which he trades; because, though that capital is continually returning to him in the shape of money, and going from him in the same shape, yet the whole of the returns is too distant from the whole of the outgoings, and the sum of his repayments could not equal the sum of its advances within such moderate periods of time as suit the conveniency of a bank. Still less could a bank afford to advance him any considerable part of his fixed capital; of the capital which the undertaker of an iron forge, for example, employs in erecting his forge and smelting-house, his work-houses and warehouses, the dwelling-houses of his workmen, &c.; of the capital which the undertaker of a mine employs in sinking his shafts, in erecting



engines for drawing out the water, in making roads and waggon-ways, &c.; of the capital which the person who undertakes to improve land employs in clearing, draining, enclosing, manuring and ploughing waste and uncultivated fields, in building farm-houses, with all their necessary appendages of stables, granaries, &c. The returns of the fixed capital are in almost all cases much slower than those of the circulating capital; and such expenses, even when laid out with the greatest prudence and judgment, very seldom return to the undertaker till after a period of many years, a period by far too distant to suit the conveniency of a bank. Traders and other undertakers may, no doubt, with great propriety, carry on a very considerable part of their projects with borrowed money. In justice to their creditors, however, their own capital ought, in this case, to be sufficient to ensure, if I may say so, the capital of those creditors; or to render it extremely improbable that those creditors should incur any loss, even though the success of the project should fall very much short of the expectation of the projectors. Even with this precaution too, the money which is borrowed, and which it is meant should not be repaid till after a period of several years, ought not to be borrowed of a bank, but ought to be borrowed upon bond or mortgage, of such private people as propose to live upon the interest of their money, without taking the trouble themselves to employ the capital; and who are upon that account willing to lend that capital to such



people of good credit as are likely to keep it for several years. A bank, indeed, which lends its money without the expense of stamp paper, or of attornies' fees for drawing bonds and mortgages, and which accepts of repayment upon the easy terms of the banking companies of Scotland, would, no doubt, be a very convenient creditor to such traders and undertakers. But such traders and undertakers would, surely, be most inconvenient debtors to such a bank.

It is now more than five-and-twenty years since the paper money issued by the different banking companies of Scotland was fully equal, or rather was somewhat more than fully equal, to what the circulation of the country could easily absorb and employ. Those companies, therefore, had so long ago given all the assistance to the traders and other undertakers of Scotland which it is possible for banks and bankers, consistently with their own interest, to give. They had even done somewhat more. They had overtraded a little, and had brought upon themselves that loss, or at least that diminution of profit, which in this particular business never fails to attend the smallest degree of overtrading. Those traders and other undertakers, having got so much assistance from banks and bankers, wished to get still more. The banks, they seem to have thought, could extend their credits to whatever sum might be wanted, without incurring any other expense besides that of a few reams of paper. They complained of the contracted views and dastardly spirit of the directors of those



banks, which did not, they said, extend their credits in proportion to the extension of the trade of the country; meaning, no doubt, by the extension of that trade the extension of their own projects beyond what they could carry on, either with their own capital, or with what they had credit to borrow of private people in the usual way of bond or mortgage. The banks, they seem to have thought, were in honor bound to supply the deficiency, and to provide them with all the capital which they wanted to trade with. The banks, however, were of a different opinion, and upon their refusing to extend their credits, some of those traders had recourse to an expedient which, for a time, served their purpose, though at a much greater expense, yet as effectually as the utmost extension of bank credits could have done. This expedient was no other than the well-known shift of drawing and re-drawing; the shift to which unfortunate traders have sometimes recourse when they are upon the brink of bankruptcy. The practice of raising money in this manner had been long known in England, and during the course of the late war, when the high profits of trade afforded a great temptation to over-trading, is said to have been carried on to a very great extent. From England it was brought into Scotland, where, in proportion to the very limited commerce, and to the very moderate capital of the country, it was soon carried on to a much greater extent than it ever had been in England.



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The practice of drawing and re-drawing is so well known to all men of business, that it may perhaps be thought unnecessary to give an account of it. But as this book may come into the hands of many people who are not men of business, and as the effects of this practice upon the banking trade are not perhaps generally understood even by men of business themselves, I shall endeavour to explain it as distinctly as I can.

The customs of merchants, which were established when the barbarous laws of Europe did not enforce the performance of their contracts, and which during the course of the two last centuries have been adopted into the laws of all European nations, have given such extraordinary privileges to bills of exchange, that money is more readily advanced upon them, than upon any other species of obligation; especially when they are made payable within so short a period as two or three months after their date. If, when the bill becomes due, the acceptor does not pay it as soon as it is presented, he becomes from that moment a bankrupt. The bill is protested, and returns upon the drawer, who, if he does not immediately pay it, becomes likewise a bankrupt. If, before it came to the person who presents it to the acceptor for payment, it had passed through the hands of several other persons, who had successively advanced to one another the contents of it either in money or goods, and who to express that each of them had in his turn received



those contents, had all of them in their order endorsed, that is, written their names upon the back of the bill; each endorser becomes in his turn liable to the owner of the bill for those contents, and, if he fails to pay, he becomes too from that moment a bankrupt. Though the drawer, acceptor, and endorsers of the bill should, all of them, be persons of doubtful credit; yet still the shortness of the date gives some security to the owner of the bill. Though all of them may be very likely to become bankrupts; it is a chance if they all become so in so short a time. The house is crazy, says a weary traveller to himself, and will not stand very long; but it is a chance if it falls to-night, and I will venture, therefore, to sleep in it to-night.

The trader A in Edinburgh, we shall suppose, draws a bill upon B in London, payable two months after date. In reality B in London owes nothing to A in Edinburgh; but he agrees to accept of A's bill, upon condition that before the term of payment he shall redraw upon A in Edinburgh for the same sum, together with the interest and a commission, another bill, payable likewise two months after date. B accordingly, before the expiration of the first two months, redraws this bill upon A in Edinburgh; who again, before the expiration of the second two months, draws a second bill upon B in London, payable likewise two months after date; and before the expiration of the third two months, B in London re-draws upon A in Edinburgh another bill, payable also two months after date. This



practice has sometimes gone on, not only for several months, but for several years together, the bill always returning upon A in Edinburgh, with the accumulated interest and commission of all the former bills. The interest was five per cent. in the year, and the commission was never less than one half per cent. on each draught. This commission being repeated more than six times in the year, whatever money A might raise by this expedient must necessarily have cost him something more than eight per cent. in the year, and sometimes a great deal more; when either the price of the commission happened to rise, or when he was obliged to pay compound interest upon the interest and commission of former bills. This practice was called raising money by circulation.

In a country where the ordinary profits of stock in the greater part of mercantile projects are supposed to run between six and ten per cent., it must have been a very fortunate speculation of which the returns could not only repay the enormous expense at which the money was thus borrowed for carrying it on; but afford, besides, a good surplus profit to the projector. Many vast and extensive projects, however, were undertaken, and for several years carried on without any other fund to support them besides what was raised at this enormous expense. The projectors, no doubt, had in their golden dreams the most distinct vision of this great profit. Upon their awaking, however, either at the end of their projects, or when they were no longer able to carry



them on, they very seldom, I believe, had the good fortune to find it\*.

The bills which A in Edinburgh drew upon B in London, he regularly discounted two months before they were due with some bank or banker in Edinburgh; and the bills which B in London re-drew upon A in Edinburgh, he as regularly discounted either with the bank of England, or with some other bankers in London. Whatever was advanced upon such circulating bills, was, in Edinburgh, advanced in the paper of the Scotch banks, and in London, when they were discounted at the bank of England, in the paper of that bank. Though the bills upon which this paper had been advanced, were all of them repaid in their turns as

\* The method described in the text was by no means either the most common or the most expensive one in which those adventurers sometimes raised money by circulation. It frequently happened that A in Edinburgh would enable B in London to pay the first bill of exchange by drawing, a few days before it became due, a second bill at three months date upon the same B in London. This bill, being payable to his own order, A sold in Edinburgh at par; and with its contents purchased bills upon London payable at sight to the order of B, to whom he sent them by the post. Towards the end of the late war, the exchange between Edinburgh and London was frequently three per cent. against Edinburgh, and those bills at sight must frequently have cost A that premium. This transaction therefore being repeated at least four times in the year, and being loaded with a commission of at least one half per cent. upon each repetition, must at that period have cost A at least fourteen per cent. in the year. At other times A would enable B to discharge the first bill of exchange by drawing, a few days before it became due, a second bill at two months date; not



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soon as they became due; yet the value which had been really advanced upon the first bill, was never really returned to the banks which advanced it; because, before each bill became due, another bill was always drawn to somewhat a greater amount than the bill which was soon to be paid; and the discounting of this other bill, was essentially necessary towards the payment of that which was soon to be due. This payment, therefore, was altogether fictitious. The stream, which, by means of those circulating bills of exchange, had once been made to run out from the coffers of the banks, was never replaced by any stream which really run into them.

upon B, but upon some third person, C, for example, in London. This other bill was made payable to the order of B, who, upon its being accepted by C, discounted it with some banker in London; and A enabled C to discharge it by drawing, a few days before it became due a third bill, likewise at two months date, sometimes upon his first correspondent B, and sometimes upon some fourth or fifth person, D or E, for example. This third bill was made payable to the order of C; who, as soon as it was accepted, discounted it in the same manner with some banker in London. Such operations being repeated at least six times in the year, and being loaded with a commission of at least one-half per cent. upon each repetition, together with the legal interest of five per cent, this method of raising money, in the same manner as that described in the text, must have cost A something more than eight per cent. By saving, however, the exchange between Edinburgh and London, it was less expensive than that mentioned in the foregoing part of this note; but then it required an established credit with more houses than one in London, an advantage which many of these adventurers could not always find it easy to procure.



The paper which was issued upon those circulating bills of exchange, amounted, upon many occasions, to the whole fund destined for carrying on some vast and extensive project of agriculture, commerce, or manufactures; and not merely to that part of it which, had there been no paper money, the projector would have been obliged to keep by him, unemployed and in ready money for answering occasional demands. The greater part of this paper was, consequently, over and above the value of the gold and silver which would have circulated in the country, had there been no paper money. It was over and above, therefore, what the circulation of the country could easily absorb and employ, and upon that account, immediately returned upon the banks in order to be exchanged for gold and silver, which they were to find as they could. It was a capital which those projectors had very artfully contrived to draw from those banks, not only without their knowledge or deliberate consent, but for some time, perhaps, without their having the most distant suspicion that they had really advanced it.

When two people, who are continually drawing and re-drawing upon one another, discount their bills always with the same banker, he must immediately discover what they are about, and see clearly that they are trading, not with any capital of their own, but with the capital which he advances to them. But this discovery is not altogether so easy when they discount their bills sometimes with one banker, and sometimes with



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another, and when the same two persons do not constantly draw and re-draw upon one another, but occasionally run the round of a great circle of projectors, who find it for their interest to assist one another in this method of raising money, and to render it, upon that account, as difficult as possible to distinguish between a real and a fictitious bill of exchange; between a bill drawn by a real creditor upon a real debtor, and a bill for which there was properly no real creditor but the bank which discounted it; nor any real debtor but the projector who made use of the money. When a banker had even made this discovery, he might sometimes make it too late, and might find that he had already discounted the bills of those projectors to so great an extent, that, by refusing to discount any more, he would necessarily make them all bankrupts, and thus, by ruining them, might perhaps ruin himself. For his own interest and safety, therefore, he might find it necessary, in this very perilous situation, to go on for some time, endeavouring, however, to withdraw gradually, and upon that account making every day greater and greater difficulties about discounting, in order to force those projectors by degrees to have recourse, either to other bankers, or to other methods of raising money; so as that he himself might, as soon as possible, get out of the circle. The difficulties, accordingly, which the bank of England, which the principal bankers in London, and which even the more prudent Scotch banks began, after a certain time, and when all of them

had



had already gone too far, to make about discounting, not only alarmed, but enraged in the highest degree those projectors. Their own distress, of which this prudent and necessary reserve of the banks was, no doubt, the immediate occasion, they called the distress of the country; and this distress of the country, they said, was altogether owing to the ignorance, pusillanimity, and bad conduct of the banks, which did not give a sufficiently liberal aid to the spirited undertakings of those who exerted themselves in order to beautify, improve, and enrich the country. It was the duty of the banks, they seemed to think, to lend for as long a time, and to as great an extent as they might wish to borrow. The banks, however, by refusing in this manner to give more credit to those, to whom they had already given a great deal too much, took the only method by which it was now possible to save either their own credit, or the public credit of the country.

In the midst of this clamor and distress, a new bank was established in Scotland for the express purpose of relieving the distress of the country. The design was generous; but the execution was imprudent, and the nature and causes of the distress which it meant to relieve, were not, perhaps, well understood. This bank was more liberal than any other had ever been, both in granting cash accounts, and in discounting bills of exchange. With regard to the latter, it seems to have made scarce any distinction between real and circulating bills, but to have



discounted all equally. It was the avowed principle of this bank to advance, upon any reasonable security, the whole capital which was to be employed in those improvements of which the returns are the most flow and distant, such as the improvements of land. To promote such improvements was even said to be the chief of the public spirited purposes for which it was instituted. By its liberality in granting cash accounts, and in discounting bills of exchange, it, no doubt, issued great quantities of its bank notes. But those bank notes being, the greater part of them, over and above what the circulation of the country could easily absorb and employ, returned upon it, in order to be exchanged for gold and silver, as fast as they were issued. Its coffers were never well filled. The capital which had been subscribed to this bank at two different subscriptions, amounted to one hundred and sixty thousand pounds, of which eighty per cent. only was paid up. This sum ought to have been paid in at several different instalments. A great part of the proprietors, when they paid in their first instalment, opened a cash account with the bank; and the directors, thinking themselves obliged to treat their own proprietors with the same liberality with which they treated all other men, allowed many of them to borrow upon this cash account what they paid in upon all their subsequent instalments. Such payments, therefore, only put into one coffer, what had the moment before been taken out of another. But had the coffers of this bank been filled ever so well,



its excessive circulation must have emptied them faster than they could have been replenished by any other expedient but the ruinous one of drawing upon London, and when the bill became due, paying it, together with interest and commission, by another draught upon the same place. Its coffers having been filled so very ill, it is said to have been driven to this resource within a very few months after it began to do business. The estates of the proprietors of this bank were worth several millions, and by their subscription to the original bond or contract of the bank, were really pledged for answering all its engagements. By means of the great credit which so great a pledge necessarily gave it, it was, notwithstanding its too liberal conduct, enabled to carry on business for more than two years. When it was obliged to stop, it had in the circulation about two hundred thousand pounds in bank notes. In order to support the circulation of those notes, which were continually returning upon it as fast as they were issued, it had been constantly in the practice of drawing bills of exchange upon London, of which the number and value were continually increasing, and, when it stopt, amounted to upwards of six hundred thousand pounds. This bank, therefore, had, in little more than the course of two years, advanced to different people upwards of eight hundred thousand pounds at five per cent. Upon the two hundred thousand pounds which it circulated in bank notes, this five per cent. might perhaps, be considered as clear gain,



without any other deduction besides the expense of management. But upon upwards of six hundred thousand pounds, for which it was continually drawing bills of exchange upon London, it was paying, in the way of interest and commission, upwards of eight per cent., and was consequently losing more than three per cent. upon more than three fourths of all its dealings.

The operations of this bank seem to have produced effects quite opposite to those which were intended by the particular persons who planned and directed it. They seem to have intended to support the spirited undertakings, for as such they considered them, which were at that time carrying on in different parts of the country; and at the same time, by drawing the whole banking business to themselves, to supplant all the other Scotch banks; particularly those established at Edinburgh, whose backwardness in discounting bills of exchange had given some offence. This bank, no doubt, gave some temporary relief to those projectors, and enabled them to carry on their projects for about two years longer than they could otherwise have done. But it thereby only enabled them to get so much deeper into debt, so that when ruin came, it fell so much the heavier both upon them and upon their creditors. The operations of this bank, therefore, instead of relieving, in reality aggravated in the long-run the distress which those projectors had brought both upon themselves and upon their country. It would have been



much better for themselves, their creditors and their country, had the greater part of them been obliged to stop two years sooner than they actually did. The temporary relief, however, which this bank afforded to those projectors, proved a real and permanent relief to the other Scotch banks. All the dealers in circulating bills of exchange, which those other banks had become so backward in discounting, had recourse to this new bank, where they were received with open arms. Those other banks, therefore, were enabled to get very easily out of that fatal circle, from which they could not otherwise have disengaged themselves without incurring a considerable loss, and perhaps too even some degree of discredit.

In the long-run, therefore, the operations of this bank increased the real distress of the country which it meant to relieve; and effectually relieved from a very great distress those rivals whom it meant to supplant.

At the first setting out of this bank, it was the opinion of some people, that how fast soever its coffers might be emptied, it might easily replenish them by raising money upon the securities of those to whom it had advanced its paper. Experience, I believe, soon convinced them that this method of raising money was by much too slow to answer their purpose; and that coffers which originally were so ill filled, and which emptied themselves so very fast, could be replenished by no other expedient but the ruinous one of drawing bills upon London, and when



they became due, paying them by other draughts upon the same place with accumulated interest and commission. But though they had been able by this method to raise money as fast as they wanted it; yet instead of making a profit, they must have suffered a loss by every such operation; so that in the long-run they must have ruined themselves as a mercantile company, though, perhaps, not so soon as by the more expensive practice of drawing and re-drawing. They could still have made nothing by the interest of the paper, which, being over and above what the circulation of the country could absorb and employ, returned upon them, in order to be exchanged for gold and silver, as fast as they issued it; and for the payment of which they were themselves continually obliged to borrow money. On the contrary, the whole expense of this borrowing, of employing agents to look out for people who had money to lend, of negotiating with those people, and of drawing the proper bond or assignment, must have fallen upon them, and have been so much clear loss upon the balance of their accounts. The project of replenishing their coffers in this manner may be compared to that of a man who had a water-pond from which a stream was continually running out, and into which no stream was continually running, but who proposed to keep it always equally full by employing a number of people to go continually with buckets to a well at some miles distance in order to bring water to replenish it.



But though this operation had proved, not only practicable, but profitable to the bank as a mercantile company, yet the country could have derived no benefit from it; but, on the contrary, must have suffered a very considerable loss by it. This operation could not augment in the smallest degree the quantity of money to be lent. It could only have erected this bank into a sort of general loan office for the whole country. Those who wanted to borrow, must have applied to this bank, instead of applying to the private persons who had lent it their money. But a bank which lends money, perhaps, to five hundred different people, the greater part of whom its directors can know very little about, is not likely to be more judicious in the choice of its debtors, than a private person who lends out his money among a few people whom he knows, and in whose sober and frugal conduct he thinks he has good reason to confide. The debtors of such a bank, as that whose conduct I have been giving some account of, were likely, the greater part of them, to be chimerical projectors, the drawers and re-drawers of circulating bills of exchange, who would employ the money in extravagant undertakings, which, with all the assistance that could be given them, they would probably never be able to compleat, and which, if they should be compleated, would never repay the expense which they had really cost, would never afford a fund capable of maintaining a quantity of labor equal to that which had been employed about them. The sober and frugal debtors



of private persons, on the contrary, would be more likely to employ the money borrowed in sober undertakings which were proportioned to their capitals, and which, though they might have less of the grand and the marvellous, would have more of the solid and the profitable, which would repay with a large profit whatever had been laid out upon them, and which would thus afford a fund capable of maintaining a much greater quantity of labor than that which had been employed about them. The success of this operation, therefore, without increasing in the smallest degree the capital of the country, would only have transferred a great part of it from prudent and profitable, to imprudent and unprofitable undertakings.

That the industry of Scotland languished for want of money to employ it, was the opinion of the famous Mr. Law. By establishing a bank of a particular kind, which he seems to have imagined might issue paper to the amount of the whole value of all the lands in the country, he proposed to remedy this want of money. The parliament of Scotland, when he first proposed his project, did not think proper to adopt it. It was afterwards adopted, with some variations, by the duke of Orleans, at that time regent of France. The idea of the possibility of multiplying paper money to almost any extent, was the real foundation of what is called the Mississippi scheme, the most extravagant project both of banking and stock-jobbing that, perhaps, the world ever saw. The different



operations of this scheme are explained so fully, so clearly, and with so much order and distinctness, by Mr. Du Verney, in his Examination of the Political Reflections upon Commerce and Finances of Mr. Du Tot, that I shall not give any account of them. The principles upon which it was founded are explained by Mr. Law himself, in a discourse concerning money and trade, which he published in Scotland when he first proposed his project. The splendid, but visionary ideas which are set forth in that and some other works upon the same principles, still continue to make an impression upon many people, and have, perhaps, in part, contributed to that excess of banking, which has of late been complained of both in Scotland and in other places.

The bank of England is the greatest bank of circulation in Europe. It was incorporated, in pursuance of an act of parliament, by a charter under the great seal, dated the 27th of July, 1694. It at that time advanced to government the sum of one million two hundred thousand pounds, for an annuity of one hundred thousand pounds; or for 96,000 *l.* a year interest, at the rate of eight per cent., and 4,000 *l.* a year for the expense of management. The credit of the new government, established by the Revolution, we may believe, must have been very low, when it was obliged to borrow at so high an interest.

In 1697 the bank was allowed to enlarge its capital stock by an engraftment of 1,001,171 *l.* 10*s.* Its whole capital stock, therefore amounted at this time to 2,201,171 *l.* 10*s.* This engraftment is said to



have been for the support of public credit. In 1696, tallies had been at forty, and fifty, and sixty per cent discount, and bank notes at twenty per cent.\* During the great recoinage of the silver, which was going on at this time, the bank had thought proper to discontinue the payment of its notes, which necessarily occasioned their discredit.

In pursuance of the 7th Anne, c. vii. the bank advanced and paid into the exchequer, the sum of 400,000 *l.*; making in all the sum of 1,600,000 *l.* which it had advanced upon its original annuity of 96,000 *l.* interest and 4,000 *l.* for expense of management. In 1708, therefore, the credit of government was as good as that of private persons, since it could borrow at six per cent. interest, the common legal and market rate of those times. In pursuance of the same act, the bank cancelled exchequer bills to the amount of 1,775,027 *l.* 17 *s.* 10½ *d.* at six per cent. interest, and was at the same time allowed to take in subscriptions for doubling its capital. In 1708, therefore, the capital of the bank amounted to 4,402,343 *l.*; and it had advanced to government the sum of 3,375,027 *l.* 17 *s.* 10½ *d.*

By a call of fifteen per cent. in 1709, there was paid in and made stock 656,204 *l.* 1 *s.* 9 *d.*; and by another of ten per cent. in 1710, 501,448 *l.* 12 *s.* 11 *d.* In consequence of those two calls, therefore, the bank capital amounted to 5,559,995 *l.* 14 *s.* 8 *d.*

\* James Postlethwaite's History of the Public Revenue, page 501.



In pursuance of the 3d George I. c. 8. the bank delivered up two millions of exchequer bills to be cancelled. It had at this time, therefore, advanced to government 5,375,027 *l.* 17 *s.* 10 *d.* In pursuance of the 8th George I. c. 21. the bank purchased of the South Sea Company, stock to the amount of 4,000,000 *l.*; and in 1722, in consequence of the subscriptions which it had taken in for enabling it to make this purchase, its capital stock was increased by 3,400,000 *l.* At this time, therefore, the bank had advanced to the public 9,375,027 *l.* 17 *s.* 10  $\frac{1}{2}$  *d.*; and its capital stock amounted only to 8,959,995 *l.* 14 *s.* 8 *d.* It was upon this occasion that the sum which the bank had advanced to the public, and for which it received interest, began first to exceed its capital stock, or the sum for which it paid a dividend to the proprietors of bank stock; or, in other words, that the bank began to have an undivided capital, over and above its divided one. It has continued to have an undivided capital of the same kind ever since. In 1746, the bank had, upon different occasions, advanced to the public 11,686,800 *l.* and its divided capital had been raised by different calls and subscriptions to 10,780,000 *l.* The state of those two sums has continued to be the same ever since. In pursuance of the 4th of George III. c. 25. the bank agreed to pay to government for the renewal of its charter 110,000 *l.* without interest or repayment. This sum, therefore, did not increase either of those two other sums.



The dividend of the bank has varied according to the variations in the rate of the interest which it has, at different times, received for the money it had advanced to the public, as well as according to other circumstances. This rate of interest has gradually been reduced from eight to three per cent. For some years past the bank dividend has been at five and a half per cent.

The stability of the bank of England is equal to that of the British government. All that it has advanced to the public must be lost before its creditors can sustain any loss. No other banking company in England can be established by act of parliament, or can consist of more than six members. It acts, not only as an ordinary bank, but as a great engine of state. It receives and pays the greater part of the annuities which are due to the creditors of the public, it circulates exchequer bills, and it advances to government the annual amount of the land and malt taxes, which are frequently not paid up till some years thereafter. In those different operations, its duty to the public may sometimes have obliged it, without any fault of its directors, to overstock the circulation with paper money. It likewise discounts merchants' bills, and has, upon several different occasions, supported the credit of the principal houses, not only of England, but of Hamburgh and Holland. Upon one occasion, in 1763, it is said to have advanced for this purpose, in one week, about 1,600,000*l.*; a great part of it



in bullion. I do not, however, pretend to warrant either the greatness of the sum, or the shortness of the time. Upon other occasions, this great company has been reduced to the necessity of paying in fixpences.

It is not by augmenting the capital of the country, but by rendering a greater part of that capital active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of the country. That part of his capital which a dealer is obliged to keep by him unemployed, and in ready money for answering occasional demands, is so much dead stock, which, so long as it remains in this situation, produces nothing either to him or to his country. The judicious operations of banking enable him to convert this dead stock into active and productive stock; into materials to work upon, into tools to work with, and into provisions and subsistence to work for; into stock which produces something both to himself and to his country. The gold and silver money which circulates in any country, and by means of which the produce of its land and labor is annually circulated and distributed to the proper consumers, is, in the same manner as the ready money of the dealer, all dead stock. It is a very valuable part of the capital of the country, which produces nothing to the country. The judicious operations of banking, by substituting paper in the room of a great part of this gold and silver, enables the country to convert a



great part of this dead stock into active and productive stock; into stock which produces something to the country. The gold and silver money which circulates in any country may very properly be compared to a highway, which, while it circulates and carries to market all the grafs and corn of the country, produces itself not a single pile of either. The judicious operations of banking, by providing, if I may be allowed so violent a metaphor, a sort of waggon-way through the air; enable the country to convert, as it were, a great part of its highways into good pastures and corn-fields, and thereby to increase very considerably the annual produce of its land and labor. The commerce and industry of the country, however, it must be acknowledged, though they may be somewhat augmented, cannot be altogether so secure, when they are thus, as it were, suspended upon the Dædalian wings of paper money, as when they travel about upon the solid ground of gold and silver. Over and above the accidents to which they are exposed from the unskilfulness of the conductors of this paper money, they are liable to several others, from which no prudence or skill of those conductors can guard them.

An unsuccessful war, for example, in which the enemy got possession of the capital, and consequently of that treasure which supported the credit of the paper money, would occasion a much greater confusion in a country where the whole circulation was carried on by paper, than



in one where the greater part of it was carried on by gold and silver. The usual instrument of commerce having lost its value, no exchanges could be made but, either by barter or upon credit. All taxes having been usually paid in paper money, the prince would not have wherewithal either to pay his troops, or to furnish his magazines; and the state of the country would be much more irretrievable than if the greater part of its circulation had consisted in gold and silver. A prince, anxious to maintain his dominions at all times in the state in which he can most easily defend them, ought, upon this account, to guard, not only against that excessive multiplication of paper money which ruins the very banks which issue it; but even against that multiplication of it, which enables them to fill the greater part of the circulation of the country with it.

The circulation of every country may be considered as divided into two different branches; the circulation of the dealers with one another, and the circulation between the dealers and the consumers. Though the same prices of money, whether paper or metal, may be employed sometimes in the one circulation and sometimes in the other, yet as both are constantly going on at the same time, each requires a certain stock of money of one kind or another, to carry it on. The value of the goods circulated between the different dealers, never can exceed the value of those circulated between the dealers and the consumers;



whatever is bought by the dealers, being ultimately destined to be sold to the consumers. The circulation between the dealers, as it is carried on by wholesale, requires generally a pretty large sum for every particular transaction. That between the dealers and the consumers, on the contrary, as it is generally carried on by retail, frequently requires but very small ones, a shilling, or even a halfpenny, being often sufficient. But small sums circulate much faster than large ones. A shilling changes masters more frequently than a guinea, and a halfpenny more frequently than a shilling. Though the annual purchases of all the consumers, therefore are at least equal in value to those of all the dealers, they can generally be transacted with a much smaller quantity of money; the same pieces, by a more rapid circulation, serving as the instrument of many more purchases of the one kind than of the other.

Paper money may be so regulated, as either to confine itself very much to the circulation between the different dealers, or to extend itself likewise to a great part of that between the dealers and the consumers. Where no bank notes are circulated under ten pounds value, as in London, paper money confines itself very much to the circulation between the dealers. When a ten pound bank note comes into the hands of a consumer, he is generally obliged to change it at the first shop where he has occasion to purchase five shillings worth of goods, so that it often  
returns



returns into the hands of a dealer, before the consumer has spent the fortieth part of the money. Where bank notes are issued for so small sums as twenty shillings, as in Scotland, paper money extends itself to a considerable part of the circulation between dealers and consumers. Before the act of parliament, which put a stop to the circulation of ten and five shilling notes, it filled a still greater part of that circulation. In the currencies of North America, paper was commonly issued for so small a sum as a shilling, and filled almost the whole of that circulation. In some paper currencies of Yorkshire, it was issued even for so small a sum as sixpence.

Where the issuing of bank notes for such very small sums is allowed and commonly practised, many mean people are both enabled and encouraged to become bankers. A person whose promissory note for five pounds, or even for twenty shillings, would be rejected by every body, will get it to be received without scruple when it is issued for so small a sum as a sixpence. But the frequent bankruptcies to which such beggarly bankers must be liable, may occasion a very considerable inconveniency, and sometimes even a very great calamity to many poor people who had received their notes in payment.

It were better, perhaps, that no bank notes were issued in any part of the kingdom for a smaller sum than five pounds. Paper money would then, probably, confine itself, in every part of the kingdom, to the circulation between the different dealers, as much as it does at present in London, where no bank notes are issued under ten



pounds value; five pounds being, in most parts of the kingdom, a sum which, though it will purchase, perhaps, little more than half the quantity of goods, is as much considered, and is as seldom spent all at once, as ten pounds are amidst the profuse expense of London.

Where paper money, it is to be observed, is pretty much confined to the circulation between dealers and dealers, as at London, there is always plenty of gold and silver. Where it extends itself to a considerable part of the circulation between dealers and consumers, as in Scotland, and still more in North America, it banishes gold and silver almost entirely from the country; almost all the ordinary transactions of its interior commerce being thus carried on by paper. The suppression of ten and five shilling bank notes, somewhat relieved the scarcity of gold and silver in Scotland; and the suppression of twenty shilling notes, would probably relieve it still more. Those metals are said to have become more abundant in America, since the suppression of some of their paper currencies. They are said, likewise, to have been more abundant before the institution of those currencies.

Though paper money should be pretty much confined to the circulation between dealers and dealers, yet banks and bankers might still be able to give nearly the same assistance to the industry and commerce of the country, as they had done when paper money filled almost the whole circulation. The ready money which a dealer is obliged to keep by him, for answering occasional demands,



is destined altogether for the circulation between himself and other dealers, of whom he buys goods. He has no occasion to keep any by him for the circulation between himself and the consumers, who are his customers, and who bring ready money to him, instead of taking any from him. Though no paper money, therefore, was allowed to be issued, but for such sums as would confine it pretty much to the circulation between dealers and dealers; yet, partly by discounting real bills of exchange, and partly by lending upon cash accounts, banks and bankers might still be able to relieve the greater part of those dealers from the necessity of keeping any considerable part of their stock by them, unemployed and in ready money, for answering occasional demands. They might still be able to give the utmost assistance which banks and bankers can, with propriety, give to traders of every kind.

To restrain private people, it may be said, from receiving in payment the promissory notes of a banker, for any sum whether great or small, when they themselves are willing to receive them; or, to restrain a banker from issuing such notes, when all his neighbours are willing to accept of them, is a manifest violation of that natural liberty which it is the proper business of law, not to infringe, but to support. Such regulations may, no doubt, be considered as in some respect a violation of natural liberty. But those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society,



are, and ought to be, restrained by the laws of all governments; of the most free, as well as of the most despotical. The obligation of building party walls, in order to prevent the communication of fire is a violation of natural liberty, exactly of the same kind with the regulations of the banking trade which are here proposed.

A paper money consisting in bank notes, issued by people of undoubted credit, payable upon demand without any condition, and in fact always readily paid as soon as presented, is, in every respect, equal in value to gold and silver money; since gold and silver money can at any time be had for it. Whatever is either bought or sold for such paper, must necessarily be bought or sold as cheap as it could have been for gold and silver.

The increase of paper money, it has been said, by augmenting the quantity, and consequently diminishing the value of the whole currency, necessarily augments the money price of commodities. But as the quantity of gold and silver, which is taken from the currency, is always equal to the quantity of paper which is added to it, paper money does not necessarily increase the quantity of the whole currency. From the beginning of the last century to the present time, provisions never were cheaper in Scotland than in 1759, though, from the circulation of ten and five shilling bank notes, there was then more paper money in the country than at present. The proportion between the price of provisions in Scotland and that in England, is the same now as before the



great multiplication of banking companies in Scotland. Corn is upon most occasions fully as cheap in England as in France; though there is a great deal of paper money in England, and scarce any in France. In 1751 and in 1752, when Mr. Hume published his *Political Discourses*, and soon after the great multiplication of paper money in Scotland, there was a very sensible rise in the price of provisions, owing, probably, to the badness of the seasons, and not to the multiplication of paper money.

It would be otherwise, indeed, with a paper money consisting in promissory notes, of which the immediate payment depended, in any respect, either upon the good will of those who issued them; or upon a condition which the holder of the notes might not always have it in his power to fulfil; or of which the payment was not exigible till after a certain number of years, and which in the mean time bore no interest. Such a paper money would, no doubt, fall more or less below the value of gold and silver, according as the difficulty or uncertainty of obtaining immediate payment was supposed to be greater or less; or according to the greater or less distance of time at which payment was exigible.

Some years ago the different banking companies of Scotland were in the practice of inserting into their bank notes, what they called an *Optional Clause*, by which they promised payment to the bearer, either as soon as the note should be presented, or, in the option of the directors, six



months after such presentment, together with the legal interest for the said six months. The directors of some of those banks sometimes took advantage of this optional clause, and sometimes threatened those who demanded gold and silver in exchange for a considerable number of their notes, that they would take advantage of it, unless such demanders would content themselves with a part of what they demanded. The promissory notes of those banking companies constituted at that time the far greater part of the currency of Scotland, which this uncertainty of payment necessarily degraded below the value of gold and silver money. During the continuance of this abuse (which prevailed chiefly in 1762, 1763, and 1764), while the exchange between London and Carlisle was at par, that between London and Dumfries would sometimes be four per cent. against Dumfries, though this town is not thirty miles distant from Carlisle. But at Carlisle, bills were paid in gold and silver; whereas at Dumfries they were paid in Scotch bank notes, and the uncertainty of getting those bank notes exchanged for gold and silver coin had thus degraded them four per cent. below the value of that coin. The same act of parliament which suppressed ten and five shilling bank notes, suppressed likewise this optional clause, and thereby restored the exchange between England and Scotland to its natural rate, or to what the course of trade and remittances might happen to make it.

In the paper currencies of Yorkshire, the



payment of so small a sum as sixpence sometimes depended upon the condition that the holder of the note should bring the change of a guinea to the person who issued it; a condition, which the holders of such notes might frequently find it very difficult to fulfil, and which must have degraded this currency below the value of gold and silver money. An act of parliament, accordingly, declared all such clauses unlawful, and suppressed, in the same manner as in Scotland, all promissory notes, payable to the bearer, under twenty shillings value.

The paper currencies of North America consisted, not in bank notes payable to the bearer on demand, but in a government paper, of which the payment was not exigible till several years after it was issued: And though the colony governments paid no interest to the holders of this paper, they declared it to be, and in fact rendered it, a legal tender of payment for the full value for which it was issued. But allowing the colony security to be perfectly good, a hundred pounds payable fifteen years hence, for example, in a country where interest is at six per cent. is worth little more than forty pounds ready money. To oblige a creditor, therefore, to accept of this as full payment for a debt of a hundred pounds actually paid down in ready money, was an act of such violent injustice, as has scarce, perhaps, been attempted by the government of any other country which pretended to be free. It bears the evident marks of having originally been, what the honest and downright Doctor Douglas assures



us it was, a scheme of fraudulent debtors to cheat their creditors. The government of Pennsylvania, indeed, pretended, upon their first emission of paper money, in 1722, to render their paper of equal value with gold and silver, by enacting penalties against all those who made any difference in the price of their goods when they sold them for a colony paper, and when they sold them for gold and silver; a regulation equally tyrannical, but much less effectual than that which it was meant to support. A positive law may render a shilling a legal tender for a guinea; because it may direct the courts of justice to discharge the debtor who has made that tender. But no positive law can oblige a person who sells goods, and who is at liberty to sell or not to sell, as he pleases, to accept of a shilling as equivalent to a guinea in the price of them. Notwithstanding any regulation of this kind, it appeared by the course of exchange with Great Britain, that a hundred pounds sterling was occasionally considered as equivalent, in some of the colonies, to a hundred and thirty pounds, and in others to so great a sum as eleven hundred pounds currency; this difference in the value arising from the difference in the quantity of paper emitted in the different colonies, and in the distance and probability of the term of its final discharge and redemption.

No law, therefore, could be more equitable than the act of parliament, so unjustly complained of in the colonies, which declared that no paper currency to be emitted there in time coming, should be a legal tender of payment.



Pensylvania was always more moderate in its emissions of paper money than any other of our colonies. Its paper currency accordingly is said never to have sunk below the value of the gold and silver which was current in the colony before the first emission of its paper money. Before that emission, the colony had raised the denomination of its coin, and had, by act of assembly, ordered five shillings sterling to pass in the colony for six and three-pence, and afterwards for six and eight-pence. A pound colony currency, therefore, even when that currency was gold and silver, was more than thirty per cent. below the value of a pound sterling, and when that currency was turned into paper, it was seldom much more than thirty per cent. below that value. The pretence for raising the denomination of the coin, was to prevent the exportation of gold and silver, by making equal quantities of those metals pass for greater sums in the colony than they did in the mother country. It was found, however, that the price of all goods from the mother country rose exactly in proportion as they raised the denomination of their coin, so that their gold and silver were exported as fast as ever.

The paper of each colony being received in the payment of the provincial taxes, for the full value for which it had been issued, it necessarily derived from this use some additional value, over and above what it would have had, from the real or supposed distance of the term of its final discharge and redemption. This additional value



was greater or less, according as the quantity of paper issued was more or less above what could be employed in the payment of the taxes of the particular colony which issued it. It was in all the colonies very much above what could be employed in this manner.

A prince, who should enact that a certain proportion of his taxes should be paid in a paper money of a certain kind, might thereby give a certain value to this paper money; even though the term of its final discharge and redemption should depend altogether upon the will of the prince. If the bank which issued this paper was careful to keep the quantity of it always somewhat below what could easily be employed in this manner, the demand for it might be such as to make it even bear a premium, or sell for somewhat more in the market than the quantity of gold or silver currency for which it was issued. Some people account in this manner for what is called the Agio of the bank of Amsterdam, or for the superiority of bank money over current money; though this bank money, as they pretend, cannot be taken out of the bank at the will of the owner. The greater part of foreign bills of exchange must be paid in bank money, that is, by a transfer in the books of the bank; and the directors of the bank, they allege, are careful to keep the whole quantity of bank money always below what this use occasions a demand for. It is upon this account, they say, that bank money sells for a premium, or bears an agio of four or



five per cent. above the same nominal sum of the gold and silver currency of the country. This account of the bank of Amsterdam, however, it will appear hereafter, is in a great measure chimerical.

A paper currency which falls below the value of gold and silver coin, does not thereby sink the value of those metals, or occasion equal quantities of them to exchange for a smaller quantity of goods of any other kind. The proportion between the value of gold and silver and that of goods of any other kind, depends in all cases, not upon the nature or quantity of any particular paper money, which may be current in any particular country, but upon the richness or poverty of the mines, which happen at any particular time to supply the great market of the commercial world with those metals. It depends upon the proportion between the quantity of labor which is necessary in order to bring a certain quantity of gold and silver to market, and that which is necessary in order to bring thither a certain quantity of any other sort of goods.

If bankers are restrained from issuing any circulating bank notes, or notes payable to the bearer, for less than a certain sum; and if they are subjected to the obligation of an immediate and unconditional payment of such bank notes as soon as presented, their trade may, with safety to the public, be rendered in all other respects perfectly free. The late multiplication of banking companies in both parts of the united kingdom, an event



by which many people have been much alarmed, instead of diminishing, increases the security of the public. It obliges all of them to be more circumspect in their conduct, and, by not extending their currency beyond its due proportion to their cash, to guard themselves against those malicious runs, which the rivalry of so many competitors is always ready to bring upon them. It restrains the circulation of each particular company within a narrower circle, and reduces their circulating notes to a smaller number. By dividing the whole circulation into a greater number of parts, the failure of any one company, an accident which, in the course of things, must sometimes happen, becomes of less consequence to the public. This free competition too obliges all bankers to be more liberal in their dealings with their customers, lest their rivals should carry them away. In general, if any branch of trade, or any division of labor, be advantageous to the public, the freer and more general the competition, it will always be the more so.



## C H A P. III.

*Of the Accumulation of Capital, or of productive and unproductive Labor.*

THERE is one sort of labor which adds to the value of the subject upon which it is bestowed: there is another which has no such effect. The former, as it produces a value, may be called productive; the latter, unproductive \* labor. Thus the labor of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance, and of his master's profit. The labor of a menial servant, on the contrary, adds to the value of nothing. Though the manufacturer has his wages advanced to him by his master, he, in reality, costs him no expense, the value of those wages being generally restored, together with a profit, in the improved value of the subject upon which his labor is bestowed. But the maintenance of a menial servant never is restored. A man grows rich by employing a multitude of manufacturers: he grows poor, by maintaining a multitude of menial servants. The labor of the latter, however, has its value, and deserves its rewards as well as that of the former. But the labor of the manufacturer fixes and realizes itself in some particular

\* Some French authors of great learning and ingenuity have used those words in a different sense. In the last chapter of the fourth book, I shall endeavour to show that their sense is an improper one.



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subject or vendible commodity, which lasts for some time at least after that labor is past. It is, as it were, a certain quantity of labor stocked and stored up to be employed, if necessary, upon some other occasion. That subject, or what is the same thing, the price of that subject, can afterwards, if necessary, put into motion a quantity of labor equal to that which had originally produced it. The labor of the menial servant, on the contrary, does not fix or realize itself in any particular subject or vendible commodity. His services generally perish in the very instant of their performance, and seldom leave any trace or value behind them, for which an equal quantity of service could afterwards be procured.

The labor of some of the most respectable orders in the society is, like that of menial servants, unproductive of any value, and does not fix or realize itself in any permanent subject, or vendible commodity, which endures after that labor is past, and for which an equal quantity of labor could afterwards be procured. The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive laborers. They are the servants of the public, and are maintained by a part of the annual produce of the industry of other people. Their service, how honorable, how useful, or how necessary soever, produces nothing for which an equal quantity of service can afterwards be procured. The protection, security, and defence of the common-



wealth, the effect of their labor this year, will not purchase its protection, security, and defence for the year to come. In the same class must be ranked, some both of the gravest and most important, and some of the most frivolous professions: churchmen, lawyers, physicians, men of letters of all kinds; players, buffoons, musicians, opera-singers, opera-dancers, &c. The labor of the meanest of these has a certain value, regulated by the very same principles which regulate that of every other sort of labor; and that of the noblest and most useful, produces nothing which could afterwards purchase or procure an equal quantity of labor. Like the declamation of the actor, the harangue of the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production.

Both productive and unproductive laborers, and those who do not labor at all, are all equally maintained by the annual produce of the land and labor of the country. This produce, how great soever, can never be infinite, but must have certain limits. According, therefore, as a smaller or greater proportion of it is in any one year employed in maintaining unproductive hands, the more in the one case and the less in the other will remain for the productive, and the next year's produce will be greater or smaller accordingly; the whole annual produce, if we except the spontaneous productions of the earth, being the effect of productive labor.

Though the whole annual produce of the



land and labor of every country, is, no doubt, ultimately destined for supplying the consumption of its inhabitants, and for procuring a revenue to them; yet when it first comes either from the ground, or from the hands of the productive laborers, it naturally divides itself into two parts. One of them, and frequently the largest, is, in the first place, destined for replacing a capital, or for renewing the provisions, materials, and finished work, which had been withdrawn from a capital; the other for constituting a revenue either to the owner of this capital, as the profit of his stock; or to some other person, as the rent of his land. Thus, of the produce of land, one part replaces the capital of the farmer; the other pays his profit and the rent of the landlord; and thus constitutes a revenue both to the owner of this capital, as the profit of his stock; and to some other person, as the rent of his land. Of the produce of a great manufactory, in the same manner, one part, and that always the largest, replaces the capital of the undertaker of the work; the other pays his profit, and thus constitutes a revenue to the owner of this capital.

That part of the annual produce of the land and labor of any country which replaces a capital, never is immediately employed to maintain any but productive hands. It pays the wages of productive labor only. That which is immediately destined for constituting a revenue either as profit or as rent, may maintain indifferently either productive or unproductive hands.

Whatever



Whatever part of his stock a man employs as a capital, he always expects is to be replaced to him with a profit. He employs it, therefore, in maintaining productive hands only; and after having served in the function of a capital to him, it constitutes a revenue to them. Whenever he employs any part of it in maintaining unproductive hands of any kind, that part is, from that moment, withdrawn from his capital, and placed in his stock reserved for immediate consumption.

Unproductive laborers, and those who do not labor at all, are all maintained by revenue; either, first, by that part of the annual produce which is originally destined for constituting a revenue to some particular persons, either as the rent of land or as the profits of stock; or, secondly, by that part which, though originally destined for replacing a capital and for maintaining productive laborers only, yet when it comes into their hands, whatever part of it is over and above their necessary subsistence, may be employed in maintaining indifferently either productive or unproductive hands. Thus, not only the great landlord or the rich merchant, but even the common workman, if his wages are considerable, may maintain a menial servant; or he may sometimes go to a play or a puppet-show, and so contribute his share towards maintaining one set of unproductive laborers; or he may pay some taxes, and thus help to maintain another set, more honorable and useful, indeed, but equally unproductive. No part of the annual produce,



however, which had been originally destined to replace a capital, is ever directed towards maintaining unproductive hands, till after it has put into motion its full complement of productive labor, or all that it could put into motion in the way in which it was employed. The workman must have earned his wages by work done, before he can employ any part of them in this manner. That part too is generally but a small one. It is his spare revenue only, of which productive laborers have seldom a great deal. They generally have some, however; and in the payment of taxes the greatness of their number may compensate, in some measure, the smallness of their contribution. The rent of land and the profits of stock are every-where, therefore, the principal sources from which unproductive hands derive their subsistence. These are the two sorts of revenue of which the owners have generally most to spare. They might both maintain indifferently either productive or unproductive hands. They seem, however, to have some predilection for the latter. The expense of a great lord feeds generally more idle than industrious people. The rich merchant, though with his capital he maintains industrious people only, yet by his expense, that is, by the employment of his revenue, he feeds commonly the very same sort as the great lord.

The proportion, therefore, between the productive and unproductive hands, depends very much in every country upon the proportion



between that part of the annual produce, which, as soon as it comes either from the ground or from the hands of the productive laborers, is destined for replacing a capital, and that which is destined for constituting a revenue, either as rent, or as profit. This proportion is very different in rich from what it is in poor countries.

Thus, at present, in the opulent countries of Europe, a very large, frequently the largest portion of the produce of the land, is destined for replacing the capital of the rich and independent farmer; the other for paying his profits, and the rent of the landlord. But anciently, during the prevalency of the feudal government, a very small portion of the produce was sufficient to replace the capital employed in cultivation. It consisted commonly in a few wretched cattle, maintained altogether by the spontaneous produce of uncultivated land, and which might, therefore, be considered as a part of that spontaneous produce. It generally too belonged to the landlord, and was by him advanced to the occupiers of the land. All the rest of the produce properly belonged to him too, either as rent for his land, or as profit upon this paltry capital. The occupiers of land were generally bondmen, whose persons and effects were equally his property. Those who were not bondmen were tenants at will, and though the rent which they paid was often nominally little more than a quit-rent, it really amounted to the whole produce of the land. Their lord could at all times command



their labor in peace, and their service in war. Though they lived at a distance from his house, they were equally dependant upon him as his retainers who lived in it. But the whole produce of the land undoubtedly belongs to him, who can dispose of the labor and service of all those whom it maintains. In the present state of Europe, the share of the landlord seldom exceeds a third, sometimes not a fourth part of the whole produce of the land. The rent of land, however, in all the improved parts of the country, has been tripled and quadrupled since those ancient times; and this third or fourth part of the annual produce is, it seems, three or four times greater than the whole had been before. In the progress of improvement, rent, though it increases in proportion to the extent, diminishes in proportion to the produce of the land.

In the opulent countries of Europe, great capitals are at present employed in trade and manufactures. In the ancient state, the little trade that was stirring, and the few homely and coarse manufactures that were carried on, required but very small capitals. These, however, must have yielded very large profits. The rate of interest was no-where less than ten per cent. and their profits must have been sufficient to afford this great interest. At present the rate of interest, in the improved parts of Europe, is no-where higher than six per cent. and in some of the most improved it is so low as four, three, and two per cent. Though that part of the revenue of the



inhabitants which is derived from the profits of stock is always much greater in rich than in poor countries, it is because the stock is much greater: in proportion to the stock the profits are generally much less.

That part of the annual produce, therefore, which, as soon as it comes either from the ground, or from the hands of the productive laborers, is destined for replacing a capital, is not only much greater in rich than in poor countries, but bears a much greater proportion to that which is immediately destined for constituting a revenue either as rent or as profit. The funds destined for the maintenance of productive labor, are not only much greater in the former than in the latter, but bear a much greater proportion to those which, though they may be employed to maintain either productive or unproductive hands, have generally a predilection for the latter.

The proportion between those different funds necessarily determines in every country the general character of the inhabitants as to industry or idleness. We are more industrious than our forefathers, because in the present times the funds destined for the maintenance of industry, are much greater in proportion to those which are likely to be employed in the maintenance of idleness, than they were two or three centuries ago. Our ancestors were idle for want of a sufficient encouragement to industry. It is better, says the proverb, to play for nothing, than to work for nothing. In mercantile and manufacturing



towns, where the inferior ranks of people are chiefly maintained by the employment of capital, they are in general industrious, sober, and thriving; as in many English, and in most Dutch towns. In those towns which are principally supported by the constant or occasional residence of a court, and in which the inferior ranks of people are chiefly maintained by the spending of revenue, they are in general idle, dissolute, and poor; as at Rome, Versailles, Compiègne, and Fontainebleau. If you except Rouen and Bourdeaux, there is little trade or industry in any of the parliament towns of France; and the inferior ranks of people, being chiefly maintained by the expense of the members of the courts of justice, and of those who come to plead before them, are in general idle and poor. The great trade of Rouen and Bourdeaux seems to be altogether the effect of their situation. Rouen is necessarily the entrepôt of almost all the goods which are brought either from foreign countries, or from the maritime provinces of France, for the consumption of the great city of Paris. Bourdeaux is in the same manner the entrepôt of the wines which grow upon the banks of the Garonne, and of the rivers which run into it, one of the richest wine countries in the world, and which seems to produce the wine fittest for exportation, or best suited to the taste of foreign nations. Such advantageous situations necessarily attract a great capital by the great employment which they afford it; and the employment of this capital



is the cause of the industry of those two cities. In the other parliament towns of France, very little more capital seems to be employed than what is necessary for supplying their own consumption; that is, little more than the smallest capital which can be employed in them. The same thing may be said of Paris, Madrid, and Vienna. Of those three cities, Paris is by far the most industrious; but Paris itself is the principal market of all the manufactures established at Paris, and its own consumption is the principal object of all the trade which it carries on. London, Lisbon, and Copenhagen, are, perhaps, the only three cities in Europe, which are both the constant residence of a court, and can at the same time be considered as trading cities, or as cities which trade not only for their own consumption, but for that of other cities and countries. The situation of all the three is extremely advantageous, and naturally fits them to be the entrepôts of a great part of the goods destined for the consumption of distant places. In a city where a great revenue is spent, to employ with advantage a capital for any other purpose than for supplying the consumption of that city, is probably more difficult than in one in which the inferior ranks of people have no other maintenance but what they derive from the employment of such a capital. The idleness of the greater part of the people who are maintained by the expense of revenue, corrupts, it is probable, the industry of those who ought to be maintained by



the employment of capital, and renders it less advantageous to employ a capital there than in other places. There was little trade or industry in Edinburgh before the union. When the Scotch parliament was no longer to be assembled in it, when it ceased to be the necessary residence of the principal nobility and gentry of Scotland, it became a city of some trade and industry. It still continues, however, to be the residence of the principal courts of justice in Scotland, of the boards of customs and excise, &c. A considerable revenue, therefore, still continues to be spent in it. In trade and industry it is much inferior to Glasgow, of which the inhabitants are chiefly maintained by the employment of capital. The inhabitants of a large village, it has sometimes been observed, after having made considerable progress in manufactures, have become idle and poor, in consequence of a great lord's having taken up his residence in their neighbourhood.

The proportion between capital and revenue, therefore, seems every-where to regulate the proportion between industry and idleness. Wherever capital predominates, industry prevails: wherever revenue, idleness. Every increase or diminution of capital, therefore, naturally tends to increase or diminish the real quantity of industry, the number of productive hands, and consequently the exchangeable value of the annual produce of the land and labor of the country, the real wealth and revenue of all its inhabitants.



Capitals are increased by parsimony, and diminished by prodigality and misconduct.

Whatever a person saves from his revenue he adds to his capital, and either employs it himself in maintaining an additional number of productive hands, or enables some other person to do so, by lending it to him for an interest, that is, for a share of the profits. As the capital of an individual can be increased only by what he saves from his annual revenue or his annual gains, so the capital of a society, which is the same with that of all the individuals who compose it, can be increased only in the same manner.

Parsimony, and not industry, is the immediate cause of the increase of capital. Industry, indeed, provides the subject which parsimony accumulates. But whatever industry might acquire, if parsimony did not save and store up, the capital would never be the greater.

Parsimony, by increasing the fund which is destined for the maintenance of productive hands, tends to increase the number of those hands whose labor adds to the value of the subject upon which it is bestowed. It tends therefore to increase the exchangeable value of the annual produce of the land and labor of the country. It puts into motion an additional quantity of industry, which gives an additional value to the annual produce.

What is annually saved is as regularly consumed as what is annually spent, and nearly in the same time too; but it is consumed by a



different set of people. That portion of his revenue which a rich man annually spends, is in most cases consumed by idle guests, and menial servants, who leave nothing behind them in return for their consumption. That portion which he annually saves, as for the sake of the profit it is immediately employed as a capital, is consumed in the same manner, and nearly in the same time too, but by a different set of people, by laborers, manufacturers, and artificers, who reproduce with a profit the value of their annual consumption. His revenue, we shall suppose, is paid him in money. Had he spent the whole, the food, clothing, and lodging, which the whole could have purchased, would have been distributed among the former set of people. By saving a part of it, as that part is for the sake of the profit immediately employed as a capital either by himself or by some other person, the food, clothing, and lodging, which may be purchased with it, are necessarily reserved for the latter. The consumption is the same, but the consumers are different.

By what a frugal man annually saves, he not only affords maintenance to an additional number of productive hands, for that or the ensuing year, but, like the founder of a public workhouse, he establishes as it were a perpetual fund for the maintenance of an equal number in all times to come. The perpetual allotment and destination of this fund, indeed, is not always guarded by any positive law, by any trust-right



or deed of mortmain. It is always guarded, however, by a very powerful principle, the plain and evident interest, of every individual to whom any share of it shall ever belong. No part of it can ever afterwards be employed to maintain any but productive hands, without an evident loss to the person who thus perverts it from its proper destination.

The prodigal perverts it in this manner. By not confining his expense within his income, he encroaches upon his capital. Like him who perverts the revenues of some pious foundation to profane purposes, he pays the wages of idleness with those funds which the frugality of his forefathers had, as it were, consecrated to the maintenance of industry. By diminishing the funds destined for the employment of productive labor, he necessarily diminishes, so far as it depends upon him, the quantity of that labor which adds a value to the subject upon which it is bestowed, and, consequently, the value of the annual produce of the land and labor of the whole country, the real wealth and revenue, of its inhabitants. If the prodigality of some was not compensated by the frugality of others, the conduct of every prodigal, by feeding the idle with the bread of the industrious, tends not only to beggar himself, but to impoverish his country.

Though the expense of the prodigal should be altogether in home-made, and no part of it in foreign commodities, its effect upon the productive



funds of the society would still be the same. Every year there would still be a certain quantity of food and clothing, which ought to have maintained productive, employed in maintaining unproductive hands. Every year, therefore, there would still be some diminution in what would otherwise have been the value of the annual produce of the land and labor of the country.

This expense, it may be said indeed, not being in foreign goods, and not occasioning any exportation of gold and silver, the same quantity of money would remain in the country as before. But if the quantity of food and clothing, which were thus consumed by unproductive, had been distributed among productive hands, they would have reproduced, together with a profit, the full value of their consumption. The same quantity of money would in this case equally have remained in the country, and there would besides have been a reproduction of an equal value of consumable goods. There would have been two values instead of one.

The same quantity of money, besides, cannot long remain in any country in which the value of the annual produce diminishes. The sole use of money is to circulate consumable goods. By means of it, provisions, materials, and finished work, are bought and sold, and distributed to their proper consumers. The quantity of money, therefore, which can be annually employed in any country, must be determined by the value



of the consumable goods annually circulated within it. These must consist either in the immediate produce of the land and labor of the country itself, or in something which had been purchased with some part of that produce. Their value, therefore, must diminish as the value of that produce diminishes, and along with it the quantity of money which can be employed in circulating them. But the money which by this annual diminution of produce is annually thrown out of domestic circulation, will not be allowed to lie idle. The interest of whoever possesses it, requires that it should be employed. But having no employment at home, it will, in spite of all laws and prohibitions, be sent abroad, and employed in purchasing consumable goods which may be of some use at home. Its annual exportation will in this manner continue for some time to add something to the annual consumption of the country beyond the value of its own annual produce. What in the days of its prosperity had been saved from that annual produce, and employed in purchasing gold and silver, will contribute for some little time to support its consumption in adversity. The exportation of gold and silver is, in this case, not the cause, but the effect of its declension, and may even, for some little time, alleviate the misery of that declension.

The quantity of money, on the contrary, must in every country naturally increase as the value of the annual produce increases. The value of



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the consumable goods annually circulated within the society being greater, will require a greater quantity of money to circulate them. A part of the increased produce, therefore, will naturally be employed in purchasing, wherever it is to be had, the additional quantity of gold and silver necessary for circulating the rest. The increase of those metals will in this case be the effect, not the cause, of the public prosperity. Gold and silver are purchased every-where in the same manner. The food, clothing, and lodging, the revenue and maintenance of all those whose labor or stock is employed in bringing them from the mine to the market, is the price paid for them in Peru as well as in England. The country which has this price to pay, will never be long without the quantity of those metals which it has occasion for; and no country will ever long retain a quantity which it has no occasion for.

Whatever, therefore, we may imagine the real wealth and revenue of a country to consist in, whether in the value of the annual produce of its land and labor, as plain reason seems to dictate; or in the quantity of the precious metals which circulate within it, as vulgar prejudices suppose; in either view of the matter, every prodigal appears to be a public enemy, and every frugal man a public benefactor.

The effects of misconduct are often the same as those of prodigality. Every injudicious and unsuccessful project in agriculture, mines, fisheries,



trade, or manufactures, tends in the same manner to diminish the funds destined for the maintenance of productive labor. In every such project, though the capital is consumed by productive hands only, yet, as by the injudicious manner in which they are employed, they do not reproduce the full value of their consumption, there must always be some diminution in what would otherwise have been the productive funds of the society.

It can seldom happen, indeed, that the circumstances of a great nation can be much affected either by the prodigality or misconduct of individuals; the profusion or imprudence of some, being always more than compensated by the frugality and good conduct of others.

With regard to profusion, the principle which prompts to expense, is the passion for present enjoyment; which, though sometimes violent and very difficult to be restrained, is in general only momentary and occasional. But the principle which prompts to save, is the desire of bettering our condition, a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go into the grave. In the whole interval which separates those two moments, there is scarce perhaps a single instant in which any man is so perfectly and compleatly satisfied with his situation, as to be without any wish of alteration or improvement of any kind. An augmentation of



fortune is the means by which the greater part of men propose and wish to better their condition. It is the means the most vulgar and the most obvious; and the most likely way of augmenting their fortune, is to save and accumulate some part of what they acquire, either regularly and annually, or upon some extraordinary occasions. Though the principle of expense, therefore, prevails in almost all men upon some occasions, and in some men upon almost all occasions, yet in the greater part of men, taking the whole course of their life at an average, the principle of frugality seems not only to predominate, but to predominate very greatly.

With regard to misconduct, the number of prudent and successful undertakings is everywhere much greater than that of injudicious and unsuccessful ones. After all our complaints of the frequency of bankruptcies, the unhappy men who fall into this misfortune make but a very small part of the whole number engaged in trade, and all other sorts of business, not much more perhaps than one in thousand. Bankruptcy is perhaps the greatest and most humiliating calamity which can befall an innocent man. The greater part of men, therefore, are sufficiently careful to avoid it. Some, indeed, do not avoid it; as some do not avoid the gallows.

Great nations are never impoverished by private, though they sometimes are by public prodigality and misconduct. The whole, or almost the whole public revenue, is in most countries



countries employed in maintaining unproductive hands. Such are the people who compose a numerous and splendid court, a great ecclesiastical establishment, great fleets and armies, who in time of peace produce nothing, and in time of war acquire nothing which can compensate the expense of maintaining them, even while the war lasts. Such people, as they themselves produce nothing, are all maintained by the produce of other men's labor. When multiplied, therefore, to an unnecessary number, they may in a particular year consume so great a share of this produce, as not to leave a sufficiency for maintaining the productive laborers, who should reproduce it next year. The next year produce, therefore, will be less than that of the foregoing, and if the same disorder should continue, that of the third year will be still less than that of the second. Those unproductive hands, who should be maintained by a part only of the spare revenue of the people, may consume so great a share of their whole revenue, and thereby oblige so great a number to encroach upon their capitals, upon the funds destined for the maintenance of productive labor, that all the frugality and good conduct of individuals may not be able to compensate the waste and degradation of produce occasioned by this violent and forced encroachment.

This frugality and good conduct, however, is upon most occasions, it appears from experience, sufficient to compensate, not only the private prodigality and misconduct of individuals,



but the public extravagance of government. The uniform, constant, and uninterrupted effort of every man to better his condition, the principle from which public and national, as well as private opulence is originally derived, is frequently powerful enough to maintain the natural progress of things toward improvement, in spite both of the extravagance of government, and of the greatest errors of administration. Like the unknown principle of animal life, it frequently restores health and vigor to the constitution, in spite, not only of the disease, but of the absurd prescriptions of the doctor.

The annual produce of the land and labor of any nation can be increased in its value by no other means, but by increasing either the number of its productive laborers, or the productive powers of those laborers who had before been employed. The number of its productive laborers, it is evident, can never be much increased, but in consequence of an increase of capital, or of the funds destined for maintaining them. The productive powers of the same number of laborers cannot be increased, but in consequence either of some addition and improvement to those machines and instruments which facilitate and abridge labor; or of a more proper division and distribution of employment. In either case an additional capital is almost always required. It is by means of an additional capital only, that the undertaker of any work can either provide his workmen with better machinery; or



make a more proper distribution of employment among them. When the work to be done consists of a number of parts, to keep every man constantly employed in one way, requires a much greater capital than where every man is occasionally employed in every different part of the work. When we compare, therefore, the state of a nation at two different periods, and find, that the annual produce of its land and labor is evidently greater at the latter than at the former, that its lands are better cultivated, its manufactures more numerous and more flourishing, and its trade more extensive, we may be assured that its capital must have increased during the interval between those two periods, and that more must have been added to it by the good conduct of some, than had been taken from it either by the private misconduct of others, or by the public extravagance of government. But we shall find this to have been the case of almost all nations, in all tolerably quiet and peaceable times, even of those who have not enjoyed the most prudent and parsimonious governments. To form a right judgment of it, indeed, we must compare the state of the country at periods somewhat distant from one another. The progress is frequently so gradual, that, at near periods, the improvement is not only not sensible, but from the declension either of certain branches of industry, or of certain districts of the country, things which sometimes happen though the country in general be in great prosperity, there frequently arises a



suspicion, that the riches and industry of the whole are decaying.

The annual produce of the land and labor of England, for example, is certainly much greater than it was, a little more than a century ago, at the restoration of Charles II. Though, at present, few people, I believe, doubt of this, yet during this period, five years have seldom passed away in which some book or pamphlet has not been published, written too with such abilities as to gain some authority with the public, and pretending to demonstrate that the wealth of the nation was fast declining, that the country was depopulated, agriculture neglected, manufactures decaying, and trade undone. Nor have these publications been all party pamphlets, the wretched offspring of falsehood and venality. Many of them have been written by very candid and very intelligent people; who wrote nothing but what they believed, and for no other reason but because they believed it.

The annual produce of the land and labor of England again, was certainly much greater at the restoration, than we can suppose it to have been about a hundred years before, at the accession of Elizabeth. At this period too, we have all reason to believe, the country was much more advanced in improvement, than it had been about a century before, towards the close of the dissensions between the houses of York and Lancaster. Even then it was, probably, in a better condition than it had been in the Norman conquest, and at the Norman conquest, than during the confusion



of the Saxon Heptarchy. Even at this early period, it was certainly a more improved country than at the invasion of Julius Cæsar, when its inhabitants were nearly in the same state with the savages in North-America.

In each of those periods, however, there was, not only much private and public profusion, many expensive and unnecessary wars, great perversion of the annual produce from maintaining productive to maintain unproductive hands; but sometimes, in the confusion of civil discord, such absolute waste and destruction of stock, as might be supposed, not only to retard, as it certainly did, the natural accumulation of riches, but to have left the country, at the end of the period, poorer than at the beginning. Thus, in the happiest and most fortunate period of them all, that which has passed since the restoration, how many disorders and misfortunes have occurred, which, could they have been foreseen, not only the impoverishment, but the total ruin of the country would have been expected from them? The fire and the plague of London, the two Dutch wars, the disorders of the revolution, the war in Ireland, the four expensive French wars of 1688, 1702, 1742, and 1756, together with the two rebellions of 1715 and 1745. In the course of the four French wars, the nation has contracted more than a hundred and forty-five millions of debt, over and above all the other extraordinary annual expense which they occasioned, so that the whole cannot be computed at less than two hundred millions. So great a share of the annual



produce of the land and labor of the country, has, since the revolution, been employed upon different occasions, in maintaining an extraordinary number of unproductive hands. But had not those wars given this particular direction to so large a capital, the greater part of it would naturally have been employed in maintaining productive hands, whose labor would have replaced, with a profit, the whole value of their consumption. The value of the annual produce of the land and labor of the country, would have been considerably increased by it every year, and every year's increase would have augmented still more that of the following year. More houses would have been built, more lands would have been improved, and those which had been improved before would have been better cultivated; more manufactures would have been established, and those which had been established before would have been more extended; and to what height the real wealth and revenue of the country might, by this time, have been raised, it is not perhaps very easy even to imagine.

But though the profusion of government must, undoubtedly, have retarded the natural progress of England towards wealth and improvement, it has not been able to stop it. The annual produce of its land and labor is, undoubtedly, much greater at present than it was either at the restoration or at the revolution. The capital, therefore, annually employed in cultivating this land, and in maintaining this labor, must likewise be much greater. In the midst of all the



exactions of government, this capital has been silently and gradually accumulated by the private frugality and good conduct of individuals, by their universal, continual, and uninterrupted effort to better their own condition. It is this effort, protected by law and allowed by liberty to exert itself in the manner that is most advantageous, which has maintained the progress of England towards opulence and improvement in almost all former times, and which, it is to be hoped, will do so in all future times. England, however, as it has never been blessed with a very parsimonious government, so parsimony has at no time been the characteristical virtue of its inhabitants. It is the highest impertinence and presumption, therefore, in kings and ministers, to pretend to watch over the œconomy of private people, and to restrain their expense, either by sumptuary laws, or by prohibiting the importation of foreign luxuries. They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will.

As frugality increases, and prodigality diminishes the public capital, so the conduct of those whose expense just equals their revenue, without either accumulating or encroaching, neither increases nor diminishes it. Some modes of expense, however, seem to contribute more to the growth of public opulence than others.



The revenue of an individual may be spent, either in things which are consumed immediately, and in which one day's expense can neither alleviate nor support that of another; or it may be spent in things more durable, which can therefore be accumulated, and in which every day's expense may, as he chuses, either alleviate or support and heighten the effect of that of the following day. A man of fortune, for example, may either spend his revenue in a profuse and sumptuous table, and in maintaining a great number of menial servants, and a multitude of dogs and horses; or contenting himself with a frugal table and few attendants, he may lay out the greater part of it in adorning his house or his country villa, in useful or ornamental buildings, in useful or ornamental furniture, in collecting books, statues, pictures; or in things more frivolous, jewels, baubles, ingenious trinkets of different kinds; or, what is most trifling of all, in amassing a great wardrobe of fine clothes, like the favorite and minister of a great prince who died a few years ago. Were two men of equal fortune to spend their revenue, the one chiefly in the one way, the other in the other, the magnificence of the person whose expense had been chiefly in durable commodities, would be continually increasing, every day's expense contributing something to support and heighten the effect of that of the following day: that of the other, on the contrary, would be no greater at the end of the period than at the beginning. The former too would, at the end of the period,



be the richer man of the two. He would have a stock of goods of some kind or other, which, though it might not be worth all that it cost, would always be worth something. No trace or vestige of the expense of the latter would remain, and the effects of ten or twenty years profusion would be as completely annihilated as if they had never existed.

As the one mode of expense is more favorable than the other to the opulence of an individual, so is it likewise to that of a nation. The houses, the furniture, the clothing of the rich, in a little time, become useful to the inferior and middling ranks of people. They are able to purchase them when their superiors grow weary of them, and the general accommodation of the whole people is thus gradually improved, when this mode of expense becomes universal among men of fortune. In countries which have long been rich, you will frequently find the inferior ranks of people in possession both of houses and furniture perfectly good and entire, but of which neither the one could have been built, nor the other have been made for their use. What was formerly a seat of the family of Seymour, is now an inn upon the Bath road. The marriage-bed of James the First of Great Britain, which his Queen brought with her from Denmark, as a present fit for a sovereign to make to a sovereign, was, a few years ago, the ornament of an ale-house at Dunfermline. In some ancient cities, which either have been long stationary, or have gone somewhat to decay, you will sometimes



scarce find a single house which could have been built for its present inhabitants. If you go into those houses too, you will frequently find many excellent, though antiquated pieces of furniture, which are still very fit for use, and which could as little have been made for them. Noble palaces, magnificent villas, great collections of books, statues, pictures, and other curiosities, are frequently both an ornament and an honor, not only to the neighbourhood, but to the whole country to which they belong. Versailles is an ornament and an honor to France, Stowe and Wilton to England. Italy still continues to command some sort of veneration by the number of monuments of this kind which it possesses, though the wealth which produced them has decayed, and though the genius which planned them seems to be extinguished, perhaps from not having the same employment.

The expense too, which is laid out in durable commodities, is favorable, not only to accumulation, but to frugality. If a person should at any time exceed in it, he can easily reform without exposing himself to the censure of the public. To reduce very much the number of his servants, to reform his table from great profusion to great frugality, to lay down his equipage after he has once set it up, are changes which cannot escape the observation of his neighbours, and which are supposed to imply some acknowledgment of preceding bad conduct. Few, therefore, of those who have once been so unfortunate as to launch out too far into this sort of expense,



have afterwards the courage to reform, till ruin and bankruptcy oblige them. But if a person has, at any time, been at too great an expence in building, in furniture, in books or pictures, no imprudence can be inferred from his changing his conduct. These are things in which further expence is frequently rendered unnecessary by former expence; and when a person stops short, he appears to do so, not because he has exceeded his fortune, but because he has satisfied his fancy.

The expence, besides, that is laid out in durable commodities, gives maintenance, commonly, to a greater number of people, than that which is employed in the most profuse hospitality. Of two or three hundred weight of provisions, which may sometimes be served up at a great festival, one-half, perhaps, is thrown to the dunghill, and there is always a great deal wasted and abused. But if the expence of this entertainment had been employed in setting to work masons, carpenters, upholsterers, mechanics, &c. a quantity of provisions, of equal value, would have been distributed among a still greater number of people, who would have bought them in penny-worths and pound weights, and not have lost or thrown away a single ounce of them. In the one way, besides, this expence maintains productive, in the other unproductive hands. In the one way therefore, it increases, in the other, it does not increase, the exchangeable value of the annual produce of the land and labor of the country.



I would not, however, by all this be understood to mean, that the one species of expence always betokens a more liberal or generous spirit than the other. When a man of fortune spends his revenue chiefly in hospitality, he shares the greater part of it with his friends and companions; but when he employs it in purchasing such durable commodities, he often spends the whole upon his own person, and gives nothing to any body without an equivalent. The latter species of expence, therefore, especially when directed towards frivolous objects, the little ornaments of dress and furniture, jewels, trinkets, gewgaws, frequently indicates, not only a trifling, but a base and selfish disposition. All that I mean is, that the one sort of expence, as it always occasions some accumulation of valuable commodities, as it is more favorable to private frugality, and, consequently, to the increase of the public capital, and as it maintains productive, rather than unproductive hands, conduces more than the other to the growth of public opulence.



C H A P. IV.

*Of Stock lent at Interest.*

**T**HE stock which is lent at interest is always considered as a capital by the lender. He expects that in due time it is to be restored to him, and that in the mean time the borrower is to pay him a certain annual rent for the use of it. The borrower may use it either as a capital, or as a stock reserved for immediate consumption. If he uses it as a capital, he employs it in the maintenance of productive laborers, who reproduce the value with a profit. He can, in this case, both restore the capital and pay the interest without alienating or encroaching upon any other source of revenue. If he uses it as a stock reserved for immediate consumption, he acts the part of a prodigal, and dissipates in the maintenance of the idle, what was destined for the support of the industrious. He can, in this case, neither restore the capital nor pay the interest, without either alienating or encroaching upon some other source of revenue, such as the property or the rent of land.

The stock which is lent at interest is, no doubt, occasionally employed in both these ways, but in the former much more frequently than in the latter. The men who borrow in order to spend will soon be ruined, and he who lends to him will generally have occasion to repent of his



folly. To borrow or to lend for such a purpose, therefore, is in all cases, where gross usury is out of the question, contrary to the interest of both parties; and though it no doubt happens sometimes that people do both the one and the other; yet, from the regard that all men have for their own interest, we may be assured, that it cannot happen so very frequently as we are sometimes apt to imagine. Ask any rich man of common prudence, to which of the two sorts of people he has lent the greater part of his stock, to those who, he thinks, will employ it profitably, or to those who will spend it idly, and he will laugh at you for proposing the question. Even among borrowers, therefore, not the people in the world most famous for frugality, the number of the frugal and industrious surpasses considerably that of the prodigal and idle.

The only people to whom stock is commonly lent, without their being expected to make any very profitable use of it, are country gentlemen who borrow upon mortgage. Even they scarce ever borrow merely to spend. What they borrow, one may say, is commonly spent before they borrow it. They have generally consumed so great a quantity of goods, advanced to them upon credit by shopkeepers and tradesmen, that they find it necessary to borrow at interest in order to pay the debt. The capital borrowed replaces the capitals of those shopkeepers and tradesmen, which the country gentlemen could not have replaced from the rents of their estates. It is not properly borrowed in order to be spent, but in



order to replace a capital which had been spent before.

Almost all loans at interest are made in money, either of paper, or of gold and silver. But what the borrower really wants, and what the lender really supplies him with, is not the money, but the money's worth, or the goods which it can purchase. If he wants it as a stock for immediate consumption, it is those goods only which he can place in that stock. If he wants it as a capital for employing industry, it is from those goods only that the industrious can be furnished with the tools, materials, and maintenance, necessary for carrying on their work. By means of the loan, the lender, as it were, assigns to the borrower his right to a certain portion of the annual produce of the land and labor of the country, to be employed as the borrower pleases.

The quantity of stock, therefore, or, as it is commonly expressed, of money which can be lent at interest in any country, is not regulated by the value of the money, whether paper or coin, which serves as the instrument of the different loans made in that country, but by the value of that part of the annual produce which, as soon as it comes either from the ground, or from the hands of the productive laborers, is destined not only for replacing a capital, but such a capital as the owner does not care to be at the trouble of employing himself. As such capitals are commonly lent out and paid back in money, they constitute what is called the monied interest. It is distinct, not only from the landed, but from the trading and



manufacturing interests, as in these last the owners themselves employ their own capitals. Even in the monied interest, however, the money is, as it were, but the deed of assignment, which conveys from one hand to another those capitals which the owners do not care to employ themselves. Those capitals may be greater in almost any proportion, than the amount of the money which serves as the instrument of their conveyance; the same pieces of money successively serving for many different loans, as well as for many different purchases. A, for example, lends to W a thousand pounds, with which W immediately purchases of B a thousand pounds worth of goods. B having no occasion for the money himself, lends the identical pieces to X, with which X immediately purchases of C another thousand pounds worth of goods. C in the same manner, and for the same reason, lends them to Y, who again purchases goods with them of D. In this manner the same pieces, either of coin or of paper, may, in the course of a few days, serve as the instrument of three different loans, and of three different purchases, each of which is in value, equal to the whole amount of those pieces. What the three monied men A, B, and C, assign to the three borrowers, W, X, Y, is the power of making those purchases. In this power consist both the value and the use of the loans. The stock lent by the three monied men, is equal to the value of the goods which can be purchased with it, and is three times greater than that of the money with which the purchases are made. Those loans, however, may be all perfectly well



well secured, the goods purchased by the different debtors being so employed, as, in due time, to bring back, with a profit, an equal value either of coin or of paper. And as the same pieces of money can thus serve as the instrument of different loans to three, or for the same reason, to thirty times their value, so they may likewise successively serve as the instrument of repayment.

A capital lent at interest may, in this manner, be considered as an assignment from the lender to the borrower of a certain considerable portion of the annual produce; upon condition that the borrower in return shall, during the continuance of the loan, annually assign to the lender a smaller portion, called the interest; and at the end of it a portion equally considerable with that which had originally been assigned to him, called the repayment. Though money, either coin or paper, serves generally as the deed of assignment both to the smaller, and to the more considerable portion, it is itself altogether different from what is assigned by it.

In proportion as that share of the annual produce which, as soon as it comes either from the ground, or from the hands of the productive laborers, is destined for replacing a capital, increases in any country, what is called the monied interest naturally increases with it. The increase of those particular capitals from which the owners wish to derive a revenue, without being at the trouble of employing them themselves, naturally accompanies the general increase of capitals; or, in other words, as stock increases, the quantity of stock to be



be lent at interest grows gradually greater and greater.

As the quantity of stock to be lent at interest increases, the interest, or the price which must be paid for the use of that stock, necessarily diminishes, not only from those general causes which make the market price of things commonly diminish as their quantity increases, but from other causes which are peculiar to this particular case. As capitals increase in any country, the profits which can be made by employing them necessarily diminish. It becomes gradually more and more difficult to find within the country a profitable method of employing any new capital. There arises in consequence a competition between different capitals, the owner of one endeavouring to get possession of that employment which is occupied by another. But upon most occasions he can hope to jostle that other out of this employment, by no other means but by dealing upon more reasonable terms. He must not only sell what he deals in somewhat cheaper, but in order to get it to sell, he must sometimes too buy it dearer. The demand for productive labor, by the increase of the funds which are destined for maintaining it, grows every day greater and greater. Laborers easily find employment, but the owners of capitals find it difficult to get laborers to employ. Their competition raises the wages of labor, and sinks the profits of stock. But when the profits which can be made by the use of a capital are in this manner diminished, as it were, at both ends, the price which can be paid for the



use of it, that is, the rate of interest, must necessarily be diminished with them.

Mr. Locke, Mr. Law, and Mr. Montesquieu, as well as many other writers, seem to have imagined that the increase of the quantity of gold and silver, in consequence of the discovery of the Spanish West Indies, was the real cause of the lowering of the rate of interest through the greater part of Europe. Those metals, they say, having become of less value themselves, the use of any particular portion of them necessarily became of less value too, and consequently the price which could be paid for it. This notion, which at first sight seems so plausible, has been so fully exposed by Mr. Hume, that it is, perhaps, unnecessary to say any thing more about it. The following very short and plain argument, however, may serve to explain more distinctly the fallacy which seems to have misled those gentlemen.

Before the discovery of the Spanish West-Indies, ten per cent. seems to have been the common rate of interest through the greater part of Europe. It has since that time in different countries sunk to six, five, four, and three per cent. Let us suppose that in every particular country the value of silver has sunk precisely in the same proportion as the rate of interest; and that in those countries, for example, where interest has been reduced from ten to five per cent., the same quantity of silver can now purchase just half the quantity of goods which it could have purchased before. This



supposition will not, I believe, be found any-where agreeable to the truth, but it is the most favorable to the opinion which we are going to examine; and even upon this supposition it is utterly impossible that the lowering of the value of silver could have the smallest tendency to lower the rate of interest. If a hundred pounds are in those countries now of no more value than fifty pounds were then, ten pounds must now be of no more value than five pounds were then. Whatever were the causes which lowered the value of the capital, the same must necessarily have lowered that of the interest, and exactly in the same proportion. The proportion between the value of the capital and that of the interest, must have remained the same, though the rate had never been altered. By altering the rate, on the contrary, the proportion between those two values is necessarily altered. If a hundred pounds now are worth no more than fifty were then, five pounds now can be worth no more than two pounds ten shillings were then. By reducing the rate of interest, therefore, from ten to five per cent., we give for the use of a capital, which is supposed to be equal to one-half of its former value, an interest which is equal to one-fourth only of the value of the former interest.

Any increase in the quantity of silver, while that of the commodities circulated by means of it remained the same, could have no other effect than to diminish the value of that metal. The nominal value of all sorts of goods would be greater, but their real value would be precisely



the same as before. They would be exchanged for a greater number of pieces of silver; but the quantity of labor which they could command, the number of people whom they could maintain and employ, would be precisely the same. The capital of the country would be the same, though a greater number of pieces might be requisite for conveying any equal portion of it from one hand to another. The deeds of assignment, like the conveyances of a verbose attorney, would be more cumbersome, but the thing assigned would be precisely the same as before, and could produce only the same effects. The funds for maintaining productive labor being the same, the demand for it would be the same. Its price or wages, therefore, though nominally greater, would really be the same. They would be paid in a greater number of pieces of silver; but they would purchase only the same quantity of goods. The profits of stock would be the same both nominally and really. The wages of labor are commonly computed by the quantity of silver which is paid to the laborer. When that is increased, therefore, his wages appear to be increased, though they may sometimes be no greater than before. But the profits of stock are not computed by the number of pieces of silver with which they are paid, but by the proportion which those pieces bear to the whole capital employed. Thus in a particular country five shillings a week are said to be the common wages of labor, and ten per cent. the common profits of stock. But the whole capital of the country being the same



as before, the competition between the different capitals of individuals into which it was divided would likewise be the same. They would all trade with the same advantages and disadvantages. The common proportion between capital and profit, therefore, would be the same, and consequently the common interest of money; what can commonly be given for the use of money being necessarily regulated by what can commonly be made by the use of it.

Any increase in the quantity of commodities annually circulated within the country, while that of the money which circulated them remained the same, would, on the contrary, produce many other important effects, besides that of raising the value of the money. The capital of the country, though it might nominally be the same, would really be augmented. It might continue to be expressed by the same quantity of money, but it would command a greater quantity of labor. The quantity of productive labor which it could maintain and employ would be increased, and consequently the demand for that labor. Its wages would naturally rise with the demand, and yet might appear to sink. They might be paid with a smaller quantity of money, but that smaller quantity might purchase a greater quantity of goods than a greater had done before. The profits of stock would be diminished both really and in appearance. The whole capital of the country being augmented, the competition between the different capitals of which it was composed, would naturally be augmented along with it. The owners of those



particular capitals would be obliged to content themselves with a smaller proportion of the produce of that labor which their respective capitals employed. The interest of money, keeping pace always with the profits of stock, might, in this manner, be greatly diminished, though the value of money, or the quantity of goods which any particular sum could purchase, was greatly augmented.

In some countries the interest of money has been prohibited by law. But as something can everywhere be made by the use of money, something ought every-where to be paid for the use of it. This regulation, instead of preventing, has been found from experience to increase the evil of usury; the debtor being obliged to pay, not only for the use of the money, but for the risk which his creditor runs by accepting a compensation for that use. He is obliged, if one may say so, to insure his creditor from the penalties of usury.

In countries where interest is permitted, the law, in order to prevent the extortion of usury, generally fixes the highest rate which can be taken without incurring a penalty. This rate ought always to be somewhat above the lowest market price, or the price which is commonly paid for the use of money by those who can give the most undoubted security. If this legal rate should be fixed below the lowest market rate, the effects of this fixation must be nearly the same as those of a total prohibition of interest. The creditor will not lend his money for less than the use of it is



worth, and the debtor must pay him for the risk which he runs by accepting the full value of that use. If it is fixed precisely at the lowest market price, it ruins with honest people, who respect the laws of their country, the credit of all those who cannot give the very best security, and obliges them to have recourse to exorbitant usurers. In a country, such as Great Britain, where money is lent to government at three per cent. and to private people upon good security at four, and four and a half, the present legal rate, five per cent., is perhaps, as proper as any.

The legal rate, it is to be observed, though it ought to be somewhat above, ought not to be much above the lowest market rate. If the legal rate of interest in Great Britain, for example, was fixed so high as eight or ten per cent., the greater part of the money which was to be lent, would be lent to prodigals and projectors, who alone would be willing to give this high interest. Sober people, who will give for the use of money no more than a part of what they are likely to make by the use of it, would not venture into the competition. A great part of the capital of the country would thus be kept out of the hands which were most likely to make a profitable and advantageous use of it, and thrown into those which were most likely to waste and destroy it. Where the legal rate of interest, on the contrary, is fixed but a very little above the lowest market rate, sober people are universally preferred, as borrowers, to prodigals and projectors. The person who lends money gets nearly as much



interest from the former as he dares to take from the latter, and his money is much safer in the hands of the one set of people, than in those of the other. A great part of the capital of the country is thus thrown into the hands in which it is most likely to be employed with advantage.

No law can reduce the common rate of interest below the lowest ordinary market rate at the time when that law is made. Notwithstanding the edict of 1766, by which the French king attempted to reduce the rate of interest from five to four per cent., money continued to be lent in France at five per cent., the law being evaded in several different ways.

The ordinary market price of land, it is to be observed, depends every-where upon the ordinary market rate of interest. The person who has a capital from which he wishes to derive a revenue, without taking the trouble to employ it himself, deliberates whether he should buy land with it, or lend it out at interest. The superior security of land, together with some other advantages which almost every-where attend upon this species of property, will generally dispose him to content himself with a smaller revenue from land, than what he might have by lending out his money at interest. These advantages are sufficient to compensate a certain difference of revenue; but they will compensate a certain difference only; and if the rent of land should fall short of the interest of money by a greater difference, nobody would buy land, which would soon reduce its ordinary price. On the contrary, if the



advantages should much more than compensate the difference, every body would buy land, which again would soon raise its ordinary price. When interest was at ten per cent., land was commonly sold for ten and twelve years purchase. As interest sunk to six, five, and four per cent., the price of land rose to twenty, five-and-twenty, and thirty years purchase. The market rate of interest is higher in France than in England; and the common price of land is lower. In England it commonly sells at thirty; in France at twenty years purchase.

## C H A P. V.

*Of the different Employment of Capitals.*

**T**HOUGH all capitals are destined for the maintenance of productive labor only, yet the quantity of that labor, which equal capitals are capable of putting into motion, varies extremely according to the diversity of their employment; as does likewise the value which that employment adds to the annual produce of the land and labor of the country.

A capital may be employed in four different ways: either, first, in procuring the rude produce annually required for the use and consumption of the society; or secondly, in manufacturing and preparing that rude produce for immediate use and



consumption; or, thirdly, in transporting either the rude or manufactured produce from the places where they abound to those where they are wanted; or, lastly, in dividing particular portions of either into such small parcels as suit the occasional demands of those who want them. In the first way are employed the capitals of all those who undertake the improvement or cultivation of lands, mines, or fisheries; in the second, those of all master manufacturers; in the third, those of all wholesale merchants; and in the fourth, those of all retailers. It is difficult to conceive that a capital should be employed in any way which may not be classed under some one or other of those four.

Each of those four methods of employing a capital is essentially necessary either to the existence or extension of the other three, or to the general conveniency of the society.

Unless a capital was employed in furnishing rude produce to a certain degree of abundance, neither manufactures nor trade of any kind could exist.

Unless a capital was employed in manufacturing that part of the rude produce which requires a good deal of preparation before it can be fit for use and consumption, it either would never be produced, because there could be no demand for it; or if it was produced spontaneously, it would be of no value in exchange, and could add nothing to the wealth of the society.



Unless a capital was employed in transporting, either the rude or manufactured produce, from the places where it abounds to those where it is wanted, no more of either could be produced than was necessary for the consumption of the neighbourhood. The capital of the merchant exchanges the surplus produce of one place for that of another, and thus encourages the industry and increases the enjoyments of both.

Unless a capital was employed in breaking and dividing certain portions either of the rude or manufactured produce, into such small parcels as suit the occasional demands of those who want them, every man would be obliged to purchase a greater quantity of the goods he wanted, than his immediate occasions required. If there was no such trade as a butcher, for example, every man would be obliged to purchase a whole ox or a whole sheep at a time. This would generally be inconvenient to the rich, and much more so to the poor. If a poor workman was obliged to purchase a month's or six months provisions at a time, a great part of the stock which he employs as a capital in the instruments of his trade, or in the furniture of his shop, and which yields him a revenue, he would be forced to place in that part of his stock which is reserved for immediate consumption, and which yields him no revenue. Nothing can be more convenient for such a person than to be able to purchase his subsistence from day to day, or even from hour to hour, as he wants it. He is thereby enabled to employ almost his whole stock as a



capital. He is thus enabled to furnish work to a greater value, and the profit, which he makes by it in this way, much more than compensates the additional price which the profit of the retailer imposes upon the goods. The prejudices of some political writers against shopkeepers and tradesmen, are altogether without foundation. So far is it from being necessary, either to tax them, or to restrict their numbers, that they can never be multiplied so as to hurt the public, though they may so as to hurt one another. The quantity of grocery goods, for example, which can be sold in a particular town, is limited by the demand of that town and its neighbourhood. The capital, therefore, which can be employed in the grocery trade cannot exceed what is sufficient to purchase that quantity. If this capital is divided between two different grocers, their competition will tend to make both of them sell cheaper, than if it were in the hands of one only; and if it were divided among twenty, their competition would be just so much the greater, and the chance of their combining together, in order to raise the price, just so much the less. Their competition might perhaps ruin some of themselves; but to take care of this is the business of the parties concerned, and it may safely be trusted to their discretion. It can never hurt either the consumer, or the producer; on the contrary, it must tend to make the retailers both sell cheaper and buy dearer, than if the whole trade was monopolized by one or two persons. Some of them, perhaps, may sometimes decoy a weak customer to buy what



he has no occasion for. This evil, however, is of too little importance to deserve the public attention, nor would it necessarily be prevented by restricting their numbers. It is not the multitude of ale-houses, to give the most suspicious example, that occasions a general disposition to drunkenness among the common people; but that disposition arising from other causes necessarily gives employment to a multitude of ale-houses.

The persons whose capitals are employed in any of those four ways are themselves productive laborers. Their labor, when properly directed, fixes and realizes itself in the subject or vendible commodity upon which it is bestowed, and generally adds to its price the value at least of their own maintenance and consumption. The profits of the farmer, of the manufacturer, of the merchant, and retailer, are all drawn from the price of the goods which the two first produce, and the two last buy and sell. Equal capitals, however, employed in each of those four different ways, will immediately put into motion very different quantities of productive labor, and augment too in very different proportions the value of the annual produce of the land and labor of the society to which they belong.

The capital of the retailer replaces, together with its profits, that of the merchant of whom he purchases goods, and thereby enables him to continue his business. The retailer himself is the only productive laborer whom it immediately employs. In his profits, consists the



whole value which its employment adds to the annual produce of the land and labor of the society.

The capital of the wholesale merchant replaces, together with their profits, the capitals of the farmers and manufacturers of whom he purchases the rude and manufactured produce which he deals in, and thereby enables them to continue their respective trades. It is by this service chiefly that he contributes indirectly to support the productive labor of the society, and to increase the value of its annual produce. His capital employs too the sailors and carriers who transport his goods from one place to another, and it augments the price of those goods by the value, not only of his profits, but of their wages. This is all the productive labor which it immediately puts into motion, and all the value which it immediately adds to the annual produce. Its operation in both these respects is a good deal superior to that of the capital of the retailer.

Part of the capital of the master manufacturer is employed as a fixed capital in the instruments of his trade, and replaces, together with its profits, that of some other artificer of whom he purchases them. Part of his circulating capital is employed in purchasing materials, and replaces, with their profits, the capitals of the farmers and miners of whom he purchases them. But a great part of it is always, either annually, or in a much shorter period, distributed among the different workmen whom he employs. It augments the value of those materials by their wages, and by



their masters' profits upon the whole stock of wages, materials, and instruments of trade employed in the business. It puts immediately into motion, therefore, a much greater quantity of productive labor, and adds a much greater value to the annual produce of the land and labor of the society, than an equal capital in the hands of any wholesale merchant.

No equal capital puts into motion a greater quantity of productive labor than that of the farmer. Not only his laboring servants, but his laboring cattle, are productive laborers. In agriculture too, nature labors along with man; and though her labor costs no expense, its produce has its value, as well as that of the most expensive workmen. The most important operations of agriculture seem intended, not so much to increase, though they do that too, as to direct the fertility of nature towards the production of the plants most profitable to man. A field overgrown with briars and brambles may frequently produce as great a quantity of vegetables as the best cultivated vineyard or corn field. Planting and tillage frequently regulate more than they animate the active fertility of nature; and after all their labor, a great part of the work always remains to be done by her. The laborers and laboring cattle, therefore, employed in agriculture, not only occasion, like the workmen in manufactures, the reproduction of a value equal to their own consumption, or to the capital which employs them, together with its owners' profits; but of a much greater value. Over and above  
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the capital of the farmer and all its profits, they regularly occasion the reproduction of the rent of the landlord. This rent may be considered as the produce of those powers of nature, the use of which the landlord lends to the farmer. It is greater or smaller according to the supposed extent of those powers, or in other words, according to the supposed natural or improved fertility of the land. It is the work of nature which remains after deducting or compensating every thing which can be regarded as the work of man. It is seldom less than a fourth, and frequently more than a third of the whole produce. No equal quantity of productive labor employed in manufactures can ever occasion so great a reproduction. In them nature does nothing; man does all; and the reproduction must always be in proportion to the strength of the agents that occasion it. The capital employed in agriculture, therefore, not only puts into motion a greater quantity of productive labor than any equal capital employed in manufactures, but in proportion too to the quantity of productive labor which it employs, it adds a much greater value to the annual produce of the land and labor of the country, to the real wealth and revenue of its inhabitants. Of all the ways in which a capital can be employed, it is by far the most advantageous to the society.

The capitals employed in the agriculture and in the retail trade of any society, must always reside within that society. Their employment is confined almost to a precise spot, to the farm,



and to the shop of the retailer. They must generally too, though there are some exceptions to this, belong to resident members of the society.

The capital of a wholesale merchant, on the contrary, seems to have no fixed or necessary residence any-where, but may wander about from place to place, according as it can either buy cheap or sell dear.

The capital of the manufacturer must no doubt reside where the manufacture is carried on; but where this shall be is not always necessarily determined. It may frequently be at a great distance both from the place where the materials grow, and from that where the compleat manufacture is consumed. Lyons is very distant both from the places which afford the materials of its manufactures, and from those which consume them. The people of fashion in Sicily are clothed in silks made in other countries, from the materials which their own produces. Part of the wool of Spain is manufactured in Great Britain, and some part of that cloth is afterwards sent back to Spain.

Whether the merchant whose capital exports the surplus produce of any society be a native or a foreigner, is of very little importance. If he is a foreigner, the number of their productive laborers is necessarily less than if he had been a native by one man only; and the value of their annual produce, by the profits of that one man. The sailors or carriers whom he employs may still belong indifferently either to his country, or to their country, or to some third country, in the



same manner as if he had been a native. The capital of a foreigner gives a value to their surplus produce equally with that of a native, by exchanging it for something for which there is a demand at home. It as effectually replaces the capital of the person who produces that surplus, and as effectually enables him to continue his business; the service by which the capital of a wholesale merchant chiefly contributes to support the productive labor, and to augment the value of the annual produce of the society to which he belongs.

It is of more consequence that the capital of the manufacturer should reside within the country. It necessarily puts into motion a greater quantity of productive labor, and adds a greater value to the annual produce of the land and labor of the society. It may, however, be very useful to the country, though it should not reside within it. The capitals of the British manufacturers who work up the flax and hemp annually imported from the coasts of the Baltic, are surely very useful to the countries which produce them. Those materials are a part of the surplus produce of those countries which, unless it was annually exchanged for something which is in demand there, would be of no value, and would soon cease to be produced. The merchants who export it, replace the capitals of the people who produce it, and thereby encourage them to continue the production; and the British manufacturers replace the capitals of those merchants.



A particular country, in the same manner as a particular person, may frequently not have capital sufficient both to improve and cultivate all its lands, to manufacture and prepare their whole rude produce for immediate use and consumption, and to transport the surplus part either of the rude or manufactured produce to those distant markets where it can be exchanged for something for which there is a demand at home. The inhabitants of many different parts of Great Britain have not capital sufficient to improve and cultivate all their lands. The wool of the southern counties of Scotland is, a great part of it, after a long land carriage through very bad roads, manufactured in Yorkshire, for want of a capital to manufacture it at home. There are many little manufacturing towns in Great Britain, of which the inhabitants have not capital sufficient to transport the produce of their own industry to those distant markets where there is demand and consumption for it. If there are any merchants among them, they are properly only the agents of wealthier merchants who reside in some of the greater commercial cities.

When the capital of any country is not sufficient for all those three purposes, in proportion as a greater share of it is employed in agriculture, the greater will be the quantity of productive labor which it puts into motion within the country; as will likewise be the value which its employment adds to the annual produce of the land and labor of the society. After agriculture, the capital employed in manufactures



puts into motion the greatest quantity of productive labor, and adds the greatest value to the annual produce. That which is employed in the trade of exportation, has the least effect of any of the three.

The country, indeed, which has not capital sufficient for all those three purposes, has not arrived at that degree of opulence for which it seems naturally destined. To attempt, however, prematurely and with an insufficient capital, to do all the three, is certainly not the shortest way for a society, no more than it would be for an individual, to acquire a sufficient one. The capital of all the individuals of a nation, has its limits in the same manner as that of a single individual, and is capable of executing only certain purposes. The capital of all the individuals of a nation is increased in the same manner as that of a single individual, by their continually accumulating and adding to it whatever they save out of their revenue. It is likely to increase the fastest, therefore, when it is employed in the way that affords the greatest revenue to all the inhabitants of the country, as they will thus be enabled to make the greatest savings. But the revenue of all the inhabitants of the country is necessarily in proportion to the value of the annual produce of their land and labor.

It has been the principal cause to the rapid progress of our American colonies towards wealth and greatness, that almost their whole capitals have hitherto been employed in agriculture. They have no manufactures, those household and



coarser manufactures excepted which necessarily accompany the progress of agriculture, and which are the work of the women and children in every private family. The greater part both of the exportation and coasting trade of America, is carried on by the capitals of merchants who reside in Great Britain. Even the stores and warehouses from which goods are retailed in some provinces, particularly in Virginia and Maryland, belong many of them to merchants who reside in the mother country, and afford one of the few instances of the retail trade of a society being carried on by the capitals of those who are not resident members of it. Were the Americans, either by combination or by any other sort of violence, to stop the importation of European manufactures, and, by thus giving a monopoly to such of their own countrymen as could manufacture the like goods, divert any considerable part of their capital into this employment, they would retard instead of accelerating the further increase in the value of their annual produce, and would obstruct instead of promoting the progress of their country towards real wealth and greatness. This would be still more the case, were they to attempt, in the same manner, to monopolize to themselves their whole exportation trade.

The course of human prosperity, indeed, seems scarce ever to have been of so long continuance as to enable any great country to acquire capital sufficient for all those three purposes; unless, perhaps, we give credit to the wonderful accounts of the wealth and cultivation of China,



of those of ancient Egypt, and of the ancient state of Indostan. Even those three countries, the wealthiest, according to all accounts, that ever were in the world, are chiefly renowned for their superiority in agriculture and manufactures. They do not appear to have been eminent for foreign trade. The ancient Egyptians had a superstitious antipathy to the sea; a superstition nearly of the same kind prevails among the Indians; and the Chinese have never excelled in foreign commerce. The greater part of the surplus produce of all those three countries seems to have been always exported by foreigners, who gave in exchange for it something else for which they found a demand there, frequently gold and silver.

It is thus that the same capital will in any country put into motion a greater or smaller quantity of productive labor, and add a greater or smaller value to the annual produce of its land and labor, according to the different proportions in which it is employed in agriculture, manufactures, and wholesale trade. The difference too is very great, according to the different sorts of wholesale trade in which any part of it is employed.

All wholesale trade, all buying in order to sell again by wholesale, may be reduced to three different sorts. The home trade, the foreign trade of consumption, and the carrying trade. The home trade is employed in purchasing in one part of the same country, and selling in another,



the produce of the industry of that country. It comprehends both the inland and the coasting trade. The foreign trade of consumption is employed in purchasing foreign goods for home consumption. The carrying trade is employed in transacting the commerce of foreign countries, or in carrying the surplus produce of one to another.

The capital which is employed in purchasing in one part of the country in order to sell in another the produce of the industry of that country, generally replaces by every such operation two distinct capitals that had both been employed in the agriculture or manufactures of that country, and thereby enables them to continue that employment. When it sends out from the residence of the merchant a certain value of commodities, it generally brings back in return at least an equal value of other commodities. When both are the produce of domestic industry, it necessarily replaces by every such operation two distinct capitals, which had both been employed in supporting productive labor, and thereby enables them to continue that support. The capital which sends Scotch manufactures to London, and brings back English corn and manufactures to Edinburgh, necessarily replaces, by every such operation, two British capitals which had both been employed in the agriculture or manufactures of Great Britain.

The capital employed in purchasing foreign goods for home-consumption, when this purchase is made with the produce of domestic industry,



replaces too, by every such operation, two distinct capitals; but one of them only is employed in supporting domestic industry. The capital which sends British goods to Portugal, and brings back Portuguese goods to Great Britain, replaces by every such operation only one British capital. The other is a Portuguese one. Though the returns, therefore, of the foreign trade of consumption should be as quick as those of the home-trade, the capital employed in it will give but one-half the encouragement to the industry or productive labor of the country.

But the returns of the foreign trade of consumption are very seldom so quick as those of the home-trade. The returns of the home-trade generally come in before the end of the year, and sometimes three or four times in the year. The returns of the foreign trade of consumption seldom come in before the end of the year, and sometimes not till after two or three years. A capital, therefore, employed in the home-trade will sometimes make twelve operations, or be sent out and returned twelve times, before a capital employed in the foreign trade of consumption has made one. If the capitals are equal, therefore, the one will give four-and-twenty times more encouragement and support to the industry of the country than the other.

The foreign goods for home-consumption may sometimes be purchased, not with the produce of domestic industry, but with some other foreign goods. These last, however, must have been purchased either immediately with the produce



of domestic industry, or with something else that had been purchased with it; for, the case of war and conquest excepted, foreign goods can never be acquired, but in exchange for something that had been produced at home, either immediately, or after two or more different exchanges. The effects therefore, of a capital employed in such a round-about foreign trade of consumption, are, in every respect, the same as those of one employed in the most direct trade of the same kind, except that the final returns are likely to be still more distant, as they must depend upon the returns of two or three distinct foreign trades. If the flax and hemp of Riga are purchased with the tobacco of Virginia, which had been purchased with British manufactures, the merchant must wait for the returns of two distinct foreign trades before he can employ the same capital in re-purchasing a like quantity of British manufactures. If the tobacco of Virginia had been purchased, not with British manufactures, but with the sugar and rum of Jamaica which had been purchased with those manufactures, he must wait for the returns of three. If those two or three distinct foreign trades should happen to be carried on by two or three distinct merchants, of whom the second buys the goods imported by the first, and the third buys those imported by the second, in order to export them again, each merchant indeed will in this case receive the returns of his own capital more quickly; but the final returns of the whole capital employed in the trade will be just as slow as



ever. Whether the whole capital employed in such a round-about trade belong to one merchant or to three, can make no difference with regard to the country, though it may with regard to the particular merchants. Three times a greater capital must in both cases be employed, in order to exchange a certain value of British manufactures for a certain quantity of flax and hemp, than would have been necessary, had the manufactures and the flax and hemp been directly exchanged for one another. The whole capital employed, therefore, in such a round-about foreign trade of consumption, will generally give less encouragement and support to the productive labor of the country, than an equal capital employed in a more direct trade of the same kind.

Whatever be the foreign commodity with which the foreign goods for home-consumption are purchased, it can occasion no essential difference either in the nature of the trade, or in the encouragement and support which it can give to the productive labor of the country from which it is carried on. If they are purchased with the gold of Brazil, for example, or with the silver of Peru, this gold and silver, like the tobacco of Virginia, must have been purchased with something that either was the produce of the industry of the country, or that had been purchased with something else that was so. So far, therefore, as the productive labor of the country is concerned, the foreign trade of consumption which is carried on by means of gold and silver, has all



the advantages and all the inconveniencies of any other equally round-about foreign trade of consumption, and will replace just as fast or just as slow the capital which is immediately employed in supporting that productive labor. It seems even to have one advantage over any other equally round-about foreign trade. The transportation of those metals from one place to another, on account of their small bulk and great value, is less expensive than that of almost any other foreign goods of equal value. Their freight is much less, and their insurance not greater; and no goods, besides, are less liable to suffer by the carriage. An equal quantity of foreign goods, therefore, may frequently be purchased with a smaller quantity of the produce of domestic industry, by the intervention of gold and silver, than by that of any other foreign goods. The demand of the country may frequently, in this manner, be supplied more completely and at a smaller expense than in any other. Whether, by the continual exportation of those metals, a trade of this kind is likely to impoverish the country from which it is carried on, in any other way, I shall have occasion to examine at great length hereafter.

That part of the capital of any country which is employed in the carrying trade, is altogether withdrawn from supporting the productive labor of that particular country, to support that of some foreign countries. Though it may replace by every operation two distinct capitals, yet neither of them belongs to that particular



country. The capital of the Dutch merchant, which carries the corn of Poland to Portugal, and brings back the fruits and wines of Portugal to Poland, replaces by every such operation two capitals, neither of which had been employed in supporting the productive labor of Holland; but one of them in supporting that of Poland, and the other that of Portugal. The profits only return regularly to Holland, and constitute the whole addition which this trade necessarily makes to the annual produce of the land and labor of that country. When, indeed, the carrying trade of any particular country is carried on with the ships and sailors of that country, that part of the capital employed in it which pays the freight, is distributed among, and puts into motion, a certain number of productive laborers of that country. Almost all nations that have had any considerable share of the carrying trade have, in fact, carried it on in this manner. The trade itself has probably derived its name from it, the people of such countries being the carriers to other countries. It does not, however, seem essential to the nature of the trade that it should be so. A Dutch merchant may, for example, employ his capital in transacting the commerce of Poland and Portugal, by carrying part of the surplus produce of the one to the other, not in Dutch, but in British bottoms. It may be presumed, that he actually does so upon some particular occasions. It is upon this account, however, that the carrying trade has been supposed peculiarly advantageous to such a country as Great



Britain, of which the defence and security depend upon the number of its sailors and shipping. But the same capital may employ as many sailors and shipping, either in the foreign trade of consumption, or even in the home-trade, when carried on by coasting vessels, as it could in the carrying trade. The number of sailors and shipping which any particular capital can employ, does not depend upon the nature of the trade, but partly upon the bulk of the goods in proportion to their value, and partly upon the distance of the ports between which they are to be carried; chiefly upon the former of those two circumstances. The coal-trade from Newcastle to London, for example, employs more shipping than all the carrying trade of England, though the ports are at no great distance. To force, therefore, by extraordinary encouragements, a larger share of the capital of any country into the carrying trade, than what would naturally go to it, will not always necessarily increase the shipping of that country.

The capital, therefore, employed in the home-trade of any country will generally give encouragement and support to a greater quantity of productive labor in that country, and increase the value of its annual produce more than an equal capital employed in the foreign trade of consumption: and the capital employed in this latter trade has in both these respects a still greater advantage over an equal capital employed in the carrying trade. The riches, and so far as power depends upon riches, the power of every country,



must always be in proportion to the value of its annual produce, the fund from which all taxes must ultimately be paid. But the great object of the political œconomy of every country, is to increase the riches and power of that country. It ought, therefore, to give no preference nor superior encouragement to the foreign trade of consumption above the home-trade, nor to the carrying trade above either of the other two. It ought neither to force nor to allure into either of those two channels, a greater share of the capital of the country than what would naturally flow into them of its own accord.

Each of those different branches of trade, however, is not only advantageous, but necessary and unavoidable, when the course of things, without any constraint or violence, naturally introduces it.

When the produce of any particular branch of industry exceeds what the demand of the country requires, the surplus must be sent abroad, and exchanged for something for which there is a demand at home. Without such exportation, a part of the productive labor of the country must cease, and the value of its annual produce diminish. The land and labor of Great Britain produce generally more corn, woollens, and hard ware, than the demand of the home-market requires. The surplus part of them, therefore, must be sent abroad, and exchanged for something for which there is a demand at home. It is only by means of such exportation, that this surplus can acquire a value sufficient to



compensate the labor and expense of producing it. The neighbourhood of the sea coast, and the banks of all navigable rivers, are advantageous situations for industry, only because they facilitate the exportation and exchange of such surplus produce for something else which is more in demand there.

When the foreign goods which are thus purchased with the surplus produce of domestic industry exceed the demand of the home-market, the surplus part of them must be sent abroad again, and exchanged for something more in demand at home. About ninety-six thousand hogsheads of tobacco are annually purchased in Virginia and Maryland, with a part of the surplus produce of British industry. But the demand of Great Britain does not require, perhaps, more than fourteen thousand. If the remaining eighty-two thousand, therefore, could not be sent abroad and exchanged for something more in demand at home, the importation of them must cease immediately, and with it the productive labor of all those inhabitants of Great Britain, who are at present employed in preparing the goods with which these eighty-two thousand hogsheads are annually purchased. Those goods, which are part of the produce of the land and labor of Great Britain, having no market at home, and being deprived of that which they had abroad, must cease to be produced. The most round-about foreign trade of consumption, therefore, may, upon some occasion, be as necessary for supporting the productive labor



labor of the country, and the value of its annual produce, as the most direct.

When the capital stock of any country is increased to such a degree, that it cannot be all employed in supplying the consumption, and supporting the productive labor of that particular country, the surplus part of it naturally disgorges itself into the carrying trade, and is employed in performing the same offices to other countries. The carrying trade is the natural effect and symptom of great national wealth; but it does not seem to be the natural cause of it. Those statesmen who have been disposed to favor it with particular encouragements, seem to have mistaken the effect and symptom for the cause. Holland, in proportion to the extent of the land and the number of its inhabitants, by far the richest country in Europe, has, accordingly, the greatest share of the carrying trade of Europe. England, perhaps the second richest country of Europe, is likewise supposed to have a considerable share of it; though what commonly passes for the carrying trade of England, will frequently, perhaps, be found to be no more than a round-about foreign trade of consumption. Such are, in a great measure, the trades which carry the goods of the East and West Indies, and of America, to different European markets. Those goods are generally purchased either immediately with the produce of British industry, or with something else which had been purchased with that produce, and the final returns of those trades are generally used or consumed



in Great Britain. The trade which is carried on in British bottoms between the different ports of the Mediterranean, and some trade of the same kind carried on by British merchants between the different ports of India, make, perhaps, the principal branches of what is properly the carrying trade of Great Britain.

The extent of the home-trade and of the capital which can be employed in it, is necessarily limited by the value of the surplus produce of all those distant places within the country which have occasion to exchange their respective productions with one another. That of the foreign trade of consumption, by the value of the surplus produce of the whole country and of what can be purchased with it. That of the carrying trade by the value of the surplus produce of all the different countries in the world. Its possible extent, therefore, is in a manner infinite in comparison of that of the other two, and is capable of absorbing the greatest capitals.

The consideration of his own private profit, is the sole motive which determines the owner of any capital to employ it either in agriculture, in manufactures, or in some particular branch of the wholesale or retail trade. The different quantities of productive labor which it may put into motion, and the different values which it may add to the annual produce of the land and labor of the society, according as it is employed in one or other of those different ways never enter into his thoughts. In countries, therefore, where agriculture is the most profitable of all



employments, and farming and improving the most direct roads to a splendid fortune, the capitals of individuals will naturally be employed in the manner most advantageous to the whole society. The profits of agriculture, however, seem to have no superiority over those of other employments in any part of Europe. Projectors, indeed, in every corner of it, have within these few years amused the public with most magnificent accounts of the profits to be made by the cultivation and improvement of land. Without entering into any particular discussion of their calculations, a very simple observation may satisfy us that the result of them must be false. We see every day the most splendid fortunes that have been acquired in the course of a single life by trade and manufactures, frequently from a very small capital, sometimes from no capital. A single instance of such a fortune acquired by agriculture in the same time, and from such a capital, has not, perhaps, occurred in Europe during the course of the present century. In all the great countries of Europe, however, much good land still remains uncultivated, and the greater part of what is cultivated, is far from being improved to the degree of which it is capable. Agriculture, therefore, is almost everywhere capable of absorbing a much greater capital than has ever yet been employed in it. What circumstances in the policy of Europe have given the trades which are carried on in towns so great an advantage over that which is carried on in the country, that private persons frequently find



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it more for their advantage to employ their capitals in the most distant carrying trades of Asia and America, than in the improvement and cultivation of the most fertile fields in their own neighbourhood, I shall endeavour to explain at full length in the two following books.



B O O K III.

Of the different Progress of Opulence  
in different Nations.

C H A P. I.

*Of the natural Progress of Opulence.*

**T**HE great commerce of every civilized society, is that carried on between the inhabitants of the town and those of the country. It consists in the exchange of rude for manufactured produce, either immediately, or by the intervention of money, or of some sort of paper which represents money. The country supplies the town with the means of subsistence, and the materials of manufacture. The town repays this supply by sending back a part of the manufactured produce to the inhabitants of the country. The town, in which there neither is nor can be any reproduction of substances, may very properly be said to gain its whole wealth and subsistence from the country. We must not however, upon this account, imagine that the gain of the town is the loss of the country. The gains of both are mutual and reciprocal, and the division of labor is in this, as in all other cases, advantageous to all the different persons employed in the various occupations into which it is subdivided.



The inhabitants of the country purchase of the town a greater quantity of manufactured goods, with the produce of a much smaller quantity of their own labor, than they must have employed had they attempted to prepare them themselves. The town affords a market for the surplus produce of the country, or what is over and above the maintenance of the cultivators, and it is there that the inhabitants of the country exchange it for something else which is in demand among them. The greater the number and revenue of the inhabitants of the town, the more extensive is the market which it affords to those of the country; and the more extensive that market, it is always the more advantageous to a great number. The corn which grows within a mile of the town, sells there for the same price with that which comes from twenty miles distance. But the price of the latter must generally, not only pay the expense of raising and bringing it to market, but afford too the ordinary profits of agriculture to the farmer. The proprietors and cultivators of the country, therefore, which lies in the neighbourhood of the town, over and above the ordinary profits of agriculture, gain, in the price of what they sell, the whole value of the carriage of the like produce that is brought from more distant parts, and they save, besides, the whole value of this carriage in the price of what they buy. Compare the cultivation of the lands in the neighbourhood of any considerable town, with that of those which lie at some distance



from it, and you will easily satisfy yourself how much the country is benefited by the commerce of the town. Among all the absurd speculations that have been propagated concerning the balance of trade, it has never been pretended that either the country loses by its commerce with the town, or the town by that with the country which maintains it.

As subsistence is, in the nature of things, prior to conveniency and luxury, so the industry which procures the former, must necessarily be prior to that which ministers to the latter. The cultivation and improvement of the country, therefore, which affords subsistence, must, necessarily, be prior to the increase of the town, which furnishes only the means of conveniency and luxury. It is the surplus produce of the country only, or what is over and above the maintenance of the cultivators, that constitutes the subsistence of the town, which can therefore increase only with the increase of this surplus produce. The town, indeed, may not always derive its whole subsistence from the country in its neighbourhood, or even from the territory to which it belongs, but from very distant countries; and this, though it forms no exception from the general rule, has occasioned considerable variations in the progress of opulence in different ages and nations.

That order of things which necessity imposes in general, though not in every particular country, is, in every particular country, promoted by the natural inclinations of man. If human



institutions had never thwarted those natural inclinations, the towns could no-where have increased beyond what the improvement and cultivation of the territory in which they were situated could support; till such time, at least, as the whole of that territory was compleatly cultivated and improved. Upon equal or nearly equal profits, most men will chuse to employ their capitals rather in the improvement and cultivation of land, than either in manufactures or in foreign trade. The man who employs his capital in land, has it more under his view and command, and his fortune is much less liable to accidents, than that of the trader, who is obliged frequently to commit it, not only to the winds and the waves, but to the more uncertain elements of human folly and injustice, by giving great credits in distant countries to men, with whose character and situation he can seldom be thoroughly acquainted. The capital of the landlord, on the contrary, which is fixed in the improvement of his land, seems to be as well secured as the nature of human affairs can admit of. The beauty of the country besides, the pleasures of a country life, the tranquillity of mind which it promises, and wherever the injustice of human laws does not disturb it, the independency which it really affords, have charms that more or less attract every body; and as to cultivate the ground was the original destination of man, so in every stage of his existence he seems to retain a predilection for this primitive employment.



Without the assistance of some artificers, indeed, the cultivation of land cannot be carried on, but with great inconveniency and continual interruption. Smiths, carpenters, wheel-wrights, and plough-wrights, masons, and bricklayers, tanners, shoemakers, and taylors, are people, whose service the farmer has frequent occasion for. Such artificers too stand, occasionally, in need of the assistance of one another; and as their residence is not, like that of the farmer, necessarily tied down to a precise spot, they naturally settle in the neighbourhood of one another, and thus form a small town or village. The butcher, the brewer, and the baker, soon join them, together with many other artificers and retailers, necessary or useful for supplying their occasional wants, and who contribute still further to augment the town. The inhabitants of the town and those of the country are mutually the servants of one another. The town is a continual fair or market, to which the inhabitants of the country resort, in order to exchange their rude for manufactured produce. It is this commerce which supplies the inhabitants of the town with the materials of their work, and the means of their subsistence. The quantity of the finished work which they sell to the inhabitants of the country, necessarily regulates the quantity of the materials and provisions which they buy. Neither their employment nor subsistence, therefore, can augment, but in proportion to the augmentation of the demand from the country for finished work; and this demand can augment



only in proportion to the extension of improvement and cultivation. Had human institutions, therefore, never disturbed the natural course of things, the progressive wealth and increase of the towns would, in every political society, be consequential, and in proportion to the improvement and cultivation of the territory or country.

In our North American colonies, where uncultivated land is still to be had upon easy terms, no manufactures for distant sale have ever yet been established in any of their towns. When an artificer has acquired a little more stock than is necessary for carrying on his own business in supplying the neighbouring country, he does not, in North America, attempt to establish with it a manufacture for more distant sale, but employs it in the purchase and improvement of uncultivated land. From artificer he becomes planter, and neither the large wages nor the easy subsistence which that country affords to artificers, can bribe him rather to work for other people than for himself. He feels that an artificer is the servant of his customers, from whom he derives his subsistence; but that a planter who cultivates his own land, and derives his necessary subsistence from the labor of his own family, is really a master, and independent of all the world.

In countries, on the contrary, where there is either no uncultivated land, or none that can be had upon easy terms; every artificer who has acquired more stock than he can employ in the occasional jobs of the neighbourhood, endeavours to



prepare work for more distant sale. The smith erects some sort of iron, the weaver some sort of linen or woollen manufactory. Those different manufactures come, in process of time, to be gradually subdivided, and thereby improved and refined in a great variety of ways, which may easily be conceived, and which it is therefore unnecessary to explain any further.

In seeking for employment to a capital, manufactures are, upon equal or nearly equal profits, naturally preferred to foreign commerce, for the same reason that agriculture is naturally preferred to manufactures. As the capital of the landlord or farmer is more secure than that of the manufacturer, so the capital of the manufacturer, being at all times more within his view and command, is more secure than that of the foreign merchant. In every period, indeed, of every society, the surplus part both of the rude and manufactured produce, or that for which there is no demand at home, must be sent abroad in order to be exchanged for something for which there is some demand at home. But whether the capital, which carries this surplus produce abroad, be a foreign or a domestic one, is of very little importance. If the society has not acquired sufficient capital both to cultivate all its lands, and to manufacture in the compleatest manner the whole of its rude produce, there is even a considerable advantage that that rude produce should be exported by a foreign capital, in order that the whole stock of the society may be employed in more useful purposes. The



wealth of ancient Egypt, that of China and Indostan, sufficiently demonstrate that a nation may attain a very high degree of opulence, though the greater part of its exportation trade be carried on by foreigners. The progress of our North American and West Indian colonies would have been much less rapid, had no capital but what belonged to themselves been employed in exporting their surplus produce.

According to the natural course of things, therefore, the greater part of the capital of every growing society is, first, directed to agriculture, afterwards to manufactures, and last of all to foreign commerce. This order of things is so very natural, that in every society that had any territory, it has always, I believe, been in some degree observed. Some of their lands must have been cultivated before any considerable towns could be established, and some sort of coarse industry of the manufacturing kind must have been carried on in those towns, before they could well think of employing themselves in foreign commerce.

But though this natural order of things must have taken place in some degree in every such society, it has, in all the modern states of Europe, been, in many respects, entirely inverted. The foreign commerce of some of their cities has introduced all their finer manufactures, or such as were fit for distant sale; and manufactures and foreign commerce together, have given birth to the principal improvements of agriculture. The manners and customs which the nature of



their original government introduced, and which remained after that government was greatly altered, necessarily forced them into this unnatural and retrograde order.

## C H A P. II.

*Of the Discouragement of Agriculture in the ancient State of Europe after the Fall of the Roman Empire.*

WHEN the German and Scythian nations over-ran the western provinces of the Roman empire, the confusions which followed so great a revolution lasted for several centuries. The rapine and violence which the barbarians exercised against the ancient inhabitants, interrupted the commerce between the towns and the country. The towns were deserted, and the country was left uncultivated, and the western provinces of Europe, which had enjoyed a considerable degree of opulence under the Roman empire, sunk into the lowest state of poverty and barbarism. During the continuance of those confusions, the chiefs and principal leaders of those nations, acquired or usurped to themselves the greater part of the lands of those countries. A great part of them was uncultivated; but no part of them, whether cultivated or uncultivated, was left without a proprietor. All of them were



engrossed, and the greater part by a few great proprietors.

This original engrossing of uncultivated lands, though a great, might have been but a transitory evil. They might soon have been divided again, and broke into small parcels either by succession or by alienation. The law of primogeniture hindered them from being divided by succession: the introduction of entails prevented their being broke into small parcels by alienation.

When land, like moveables, is considered as the means only of subsistence and enjoyment, the natural law of succession divides it, like them, among all the children of the family; of all of whom the subsistence and enjoyment may be supposed equally dear to the father. This natural law of succession accordingly took place among the Romans, who made no more distinction between elder and younger, between male and female, in the inheritance of lands, than we do in the distribution of moveables. But when land was considered as the means, not of subsistence merely, but of power and protection, it was thought better that it should descend undivided to one. In those disorderly times, every great landlord was a sort of petty prince. His tenants were his subjects. He was their judge, and in some respects their legislator in peace, and their leader in war. He made war according to his own discretion, frequently against his neighbours, and sometimes against his sovereign. The security of a landed estate, therefore, the protection



which its owner could afford to those who dwelt on it, depended upon its greatness. To divide it was to ruin it, and to expose every part of it to be oppressed and swallowed up by the incursions of its neighbours. The law of primogeniture, therefore, came to take place, not immediately, indeed, but in process of time, in the succession of landed estates, for the same reason that it has generally taken place in that of monarchies, though not always at their first institution. That the power, and consequently the security of the monarchy, may not be weakened by division, it must descend entire to one of the children. To which of them so important a preference shall be given, must be determined by some general rule, founded not upon the doubtful distinctions of personal merit, but upon some plain and evident difference which can admit of no dispute. Among the children of the same family, there can be no indisputable difference but that of sex, and that of age. The male sex is universally preferred to the female; and when all other things are equal, the elder every-where takes place of the younger. Hence the origin of the right of primogeniture, and of what is called lineal succession.

Laws frequently continue in force long after the circumstances, which first gave occasion to them, and which could alone render them reasonable, are no more. In the present state of Europe, the proprietor of a single acre of land is as perfectly secure of his possession as the proprietor of a hundred thousand. The right of primoge-



niture, however, still continues to be respected, and as of all institutions it is the fittest to support the pride of family distinctions, it is still likely to endure for many centuries. In every other respect, nothing can be more contrary to the real interest of a numerous family, than a right which, in order to enrich one, beggars all the rest of the children.

Entails are the natural consequences of the law of primogeniture. They were introduced to preserve a certain lineal succession, of which the law of primogeniture first gave the idea, and to hinder any part of the original estate from being carried out of the proposed line either by gift, or devise, or alienation; either by the folly, or by the misfortune of any of its successive owners. They were altogether unknown to the Romans. Neither their substitutions nor fideicommisses bear any resemblance to entails, though some French lawyers have thought proper to dress the modern institution in the language and garb of those ancient ones.

When great landed estates were a sort of principalities, entails might not be unreasonable. Like what are called the fundamental laws of some monarchies, they might frequently hinder the security of thousands from being endangered by the caprice or extravagance of one man. But in the present state of Europe, when small as well as great estates derive their security from the laws of their country, nothing can be more completely absurd. They are founded upon the most absurd of all suppositions, the supposition  
that



that every successive generation of men have not an equal right to the earth, and to all that it possesses; but that the property of the present generation should be restrained and regulated according to the fancy of those who died perhaps five hundred years ago. Entails, however, are still respected through the greater part of Europe, in those countries particularly in which noble birth is a necessary qualification for the enjoyment either of civil or military honors. Entails are thought necessary for maintaining this exclusive privilege of the nobility to the great offices and honors of their country, and that order having usurped one unjust advantage over the rest of their fellow-citizens, lest their poverty should render it ridiculous, it is thought reasonable that they should have another. The common law of England, indeed, is said to abhor perpetuities, and they are accordingly more restricted there than in any other European monarchy; though even England is not altogether without them. In Scotland more than one fifth, perhaps more than one-third part of the whole lands of the country, are at present supposed to be under strict entail.

Great tracts of uncultivated land were, in this manner, not only engrossed by particular families, but the possibility of their being divided again was as much as possible precluded for ever. It seldom happens, however, that a great proprietor is a great improver. In the disorderly times which gave birth to those barbarous institutions, the great proprietor was sufficiently



employed in defending his own territories , or in extending his jurisdiction and authority over those of his neighbours. He had no leifure to attend to the cultivation and improvement of land. When the establishment of law and order afforded him this leifure , he often wanted the inclination , and almost always the requisite abilities. If the expenfe of his house and person either equalled or exceeded his revenue , as it did very frequently , he had no stock to employ in this manner. If he was an œconomist , he generally found it more profitable to employ his annual favings in new purchases , than in the improvement of his old estate. To improve land with profit , like all other commercial projects , requires an exact attention to small favings and small gains , of which a man born to a great fortune , even though naturally frugal , is very feldom capable. The fituation of fuch a person naturally difpofes him to attend rather to ornament which pleafes his fancy , than to profit for which he has fo little occafion. The elegance of his drefs , of his equipage , of his house , and houfhould furniture , are objects which from his infancy he has been accuftomed to have fome anxiety about. The turn of mind which this habit naturally forms , follows him when he comes to think of the improvement of land. He embellifhes perhaps four or five hundred acres in the neighbourhood of his house , at ten times the expenfe which the land is worth after all his improvements ; and finds that if he was to improve his whole estate in the fame manner ,



and he has little taste for any other, he would be a bankrupt before he had finished the tenth part of it. There still remain in both parts of the united kingdom some great estates which have continued without interruption in the hands of the same family since the times of feudal anarchy. Compare the present condition of those estates with the possessions of the small proprietors in their neighbourhood, and you will require no other argument to convince you how unfavorable such extensive property is to improvement.

If little improvement was to be expected from such great proprietors, still less was to be hoped for from those who occupied the land under them. In the ancient state of Europe, the occupiers of land were all tenants at will. They were all or almost all slaves; but their slavery was of a milder kind than that known among the ancient Greeks and Romans, or even in our West Indian colonies. They were supposed to belong more directly to the land than to their master. They could, therefore, be sold with it, but not separately. They could marry, provided it was with the consent of their master, and he could not afterwards dissolve the marriage by selling the man and wife to different persons. If he maimed or murdered any of them, he was liable to some penalty, though generally but to a small one. They were not, however, capable of acquiring property. Whatever they acquired was acquired to their master, and he could take it from them at pleasure. Whatever cultivation and improvement could be



carried on by means of such slaves, was properly carried on by their master. It was at his expense. The seed, the cattle, and the instruments of husbandry were all his. It was for his benefit. Such slaves could acquire nothing but their daily maintenance. It was properly the proprietor himself, therefore, that, in this case, occupied his own lands, and cultivated them by his own bondmen. This species of slavery still subsists in Russia, Poland, Hungary, Bohemia, Moravia, and other parts of Germany. It is only in the western and south-western provinces of Europe, that it has gradually been abolished altogether.

But if great improvements are seldom to be expected from great proprietors, they are least of all to be expected when they employ slaves for their workmen. The experience of all ages and nations, I believe, demonstrates that the work done by slaves, though it appears to cost only their maintenance, is in the end the dearest of any. A person who can acquire no property, can have no other interest but to eat as much, and to labor as little as possible. Whatever work he does beyond what is sufficient to purchase his own maintenance, can be squeezed out of him by violence only, and not by any interest of his own. In ancient Italy, how much the cultivation of corn degenerated, how unprofitable it became to the master when it fell under the management of slaves, is remarked by both Pliny and Columella. In the time of Aristotle it had not been much better in ancient Greece. Speaking of the ideal republic described in the



laws of Plato, to maintain five thousand idle men (the number of warriors supposed necessary for its defence) together with their women and servants, would require, he says, a territory of boundless extent and fertility, like the plains of Babylon.

The pride of man makes him love to domineer, and nothing mortifies him so much as to be obliged to condescend to persuade his inferiors. Wherever the law allows it, and the nature of the work can afford it, therefore, he will generally prefer the service of slaves to that of freemen. The planting of sugar and tobacco can afford the expence of slave-cultivation. The raising of corn, it seems, in the present times, cannot. In the English colonies, of which the principal produce is corn, the far greater part of the work is done by freemen. The late resolution of the Quakers in Pensilvania to set at liberty all their negro slaves, may satisfy us that their number cannot be very great. Had they made any considerable part of their property, such a resolution could never have been agreed to. In our sugar colonies, on the contrary, the whole work is done by slaves, and in our tobacco colonies a very great part of it. The profits of a sugar-plantation in any of our West Indian colonies are generally much greater than those of any other cultivation that is known either in Europe or America: And the profits of a tobacco plantation, though inferior to those of sugar, are superior to those of corn, as has already been observed. Both can afford the



expense of slave-cultivation, but sugar can afford it still better than tobacco. The number of negroes accordingly is much greater, in proportion to that of whites, in our sugar than in our tobacco colonies.

To the slave cultivators of ancient times, gradually succeeded a species of farmers known at present in France by the name of Metayers. They are called in Latin, *Coloni Partiarum*. They have been so long in disuse in England that at present I know no English name for them. The proprietor furnished them with the seed, cattle, and instruments of husbandry, the whole stock, in short, necessary for cultivating the farm. The produce was divided equally between the proprietor and the farmer, after setting aside what was judged necessary for keeping up the stock, which was restored to the proprietor when the farmer either quitted, or was turned out of the farm.

Land occupied by such tenants is properly cultivated at the expense of the proprietor, as much as that occupied by slaves. There is, however, one very essential difference between them. Such tenants, being freemen, are capable of acquiring property, and having a certain proportion of the produce of the land, they have a plain interest that the whole produce should be as great as possible, in order that their own proportion may be so. A slave, on the contrary, who can acquire nothing but his maintenance, consults his own ease by making the land produce as little as possible over and above that



maintenance. It is probable that it was partly upon account of this advantage, and partly upon account of the encroachments which the sovereign, always jealous of the great lords, gradually encouraged their villains to make upon their authority, and which seem at last to have been such as rendered this species of servitude altogether inconvenient, that tenure in villanage gradually wore out through the greater part of Europe. The time and manner, however, in which so important a revolution was brought about, is one of the most obscure points in modern history. The church of Rome claims great merit in it; and it is certain that so early as the twelfth century, Alexander III. published a bull for the general emancipation of slaves. It seems, however, to have been rather a pious exhortation, than a law to which exact obedience was required from the faithful. Slavery continued to take place almost universally for several centuries afterwards, till it was gradually abolished by the joint operation of the two interests above-mentioned, that of the proprietor on the one hand, and that of the sovereign on the other. A villain enfranchised, and at the same time allowed to continue in possession of the land, having no stock of his own, could cultivate it only by means of what the landlord advanced to him, and must, therefore, have been what the French call a Metayer.

It could never, however, be the interest even of this last species of cultivators to lay out, in the further improvement of the land, any part of the



little stock which they might save from their own share of the produce, because the lord, who laid out nothing, was to get one-half of whatever it produced. The tithe, which is but a tenth of the produce, is found to be a very great hindrance to improvement. A tax, therefore, which amounted to one-half, must have been an effectual bar to it. It might be the interest of a metayer to make the land produce as much as could be brought out of it by means of the stock furnished by the proprietor; but it could never be his interest to mix any part of his own with it. In France, where five parts out of six of the whole kingdom are said to be still occupied by this species of cultivators, the proprietors complain that their metayers take every opportunity of employing the masters' cattle rather in carriage than in cultivation; because in the one case they get the whole profits to themselves, in the other they share them with their landlord. This species of tenants still subsists in some parts of Scotland. They are called steel-bow tenants. Those ancient English tenants, who are said by Chief Baron Gilbert and Doctor Blackstone to have been rather bailiffs of the landlord than farmers properly so called, were probably of the same kind.

To this species of tenancy succeeded, though by very slow degrees farmers properly so called, who cultivated the land with their own stock, paying a rent certain to the landlord. When such farmers have a lease for a term of years, they may sometimes find it for their interest to



lay out part of their capital in the further improvement of the farm; because they may sometimes expect to recover it, with a large profit, before the expiration of the lease. The possession even of such farmers, however, was long extremely precarious, and still is so in many parts of Europe. They could before the expiration of their term be legally outed of their lease, by a new purchaser; in England, even by the fictitious action of a common recovery. If they were turned out illegally by the violence of their master, the action by which they obtained redress was extremely imperfect. It did not always re-instate them in the possession of the land, but gave them damages which never amounted to the real loss. Even in England, the country perhaps of Europe where the yeomanry has always been most respected, it was not till about the 14th of Henry the VIIth that the action of ejectment was invented, by which the tenant recovers, not damages only but possession, and in which his claim is not necessarily concluded by the uncertain decision of a single assize. This action has been found so effectual a remedy that, in the modern practice, when the landlord has occasion to sue for the possession of the land, he seldom makes use of the actions which properly belong to him as landlord, the writ of right or the writ of entry, but sues in the name of his tenant, by the writ of ejectment. In England, therefore, the security of the tenant is equal to that of the proprietor. In England besides a



lease for life of forty shillings a year value is a freehold, and entitles the lessee to vote for a member of parliament; and as a great part of the yeomanry have freeholds of this kind, the whole order becomes respectable to their landlords on account of the political consideration which this gives them. There is, I believe, no where in Europe, except in England, any instance of the tenant building upon the land of which he had no lease, and trusting that the honor of his landlord would take no advantage of so important an improvement. Those laws and customs so favorable to the yeomanry, have perhaps contributed more to the present grandeur of England, than all their boasted regulations of commerce taken together.

The law which secures the longest leases against successors of every kind is, so far as I know, peculiar to Great Britain. It was introduced into Scotland so early as 1449, by a law of James the II<sup>d</sup>. Its beneficial influence, however, has been much obstructed by entails; the heirs of entail being generally restrained from letting leases for any long term of years, frequently for more than one year. A late act of parliament has, in this respect, somewhat slackened their fetters, though they are still by much too strait. In Scotland, besides, as no leasehold gives a vote for a member of parliament, the yeomanry are upon this account less respectable to their landlords than in England.

In other parts of Europe, after it was found convenient to secure tenants both against heirs and purchasers, the term of their security was



still limited to a very short period; in France, for example, to nine years from the commencement of the lease. It has in that country, indeed, been lately extended to twenty-seven, a period still too short to encourage the tenant to make the most important improvements. The proprietors of land were anciently the legislators of every part of Europe. The laws relating to land, therefore, were all calculated for what they supposed the interest of the proprietor. It was for his interest, they had imagined, that no lease granted by any of his predecessors should hinder him from enjoying, during a long term of years, the full value of his land. Avarice and injustice are always short-sighted, and they did not foresee how much this regulation must obstruct improvement, and thereby hurt in the long-run the real interest of the landlord.

The farmers too, besides paying the rent, were anciently, it was supposed, bound to perform a great number of services to the landlord, which were seldom either specified in the lease, or regulated by any precise rule, but by the use and wont of the manor or barony. These services, therefore, being almost entirely arbitrary, subjected the tenant to many vexations. In Scotland the abolition of all services, not precisely stipulated in the lease, has in the course of a few years very much altered for the better the condition of the yeomanry of that country.

The public services to which the yeomanry were bound, were not less arbitrary than the



private ones. To make and maintain the high roads, a servitude which still subsists, I believe, every-where, though with different degrees of oppression in different countries, was not the only one. When the king's troops, when his household or his officers of any kind passed through any part of the country, the yeomanry were bound to provide them with horses, carriages, and provisions, at a price regulated by the purveyor. Great Britain is, I believe, the only monarchy in Europe where the oppression of purveyance has been entirely abolished. It still subsists in France and Germany.

The public taxes to which they were subject were as irregular and oppressive as the services. The ancient lords, though extremely unwilling to grant themselves any pecuniary aid to their sovereign, easily allowed him to tallage, as they called it, their tenants, and had not knowledge enough to foresee how much this must in the end affect their own revenue. The taille, as it still subsists in France, may serve as an example of those ancient tallages. It is a tax upon the supposed profits of the farmer, which they estimate by the stock that he has upon the farm. It is his interest, therefore, to appear to have as little as possible, and consequently to employ as little as possible in its cultivation, and none in its improvement. Should any stock happen to accumulate in the hands of a French farmer, the taille is almost equal to a prohibition of its ever being employed upon the land. This tax besides is supposed to dishonor whoever is subject to it, and to degrade him below, not only the rank of



a gentleman, but that of a burgher, and whoever rents the lands of another becomes subject to it. No gentleman, nor even any burgher who has stock, will submit to this degradation. This tax, therefore, not only hinders the stock which accumulates upon the land from being employed in its improvement, but drives away all other stock from it. The ancient tenths and fifteenths, so usual in England in former times, seem, so far as they affected the land, to have been taxes of the same nature with the taille.

Under all these discouragements, little improvement could be expected from the occupiers of land. That order of people, with all the liberty and security which law can give, must always improve under great disadvantages. The farmer compared with the proprietor, is as a merchant who trades with borrowed money compared with one who trades with his own. The stock of both may improve, but that of the one, with only equal good conduct, must always improve more slowly than that of the other, on account of the large share of the profits which is consumed by the interest of the loan. The lands cultivated by the farmer must, in the same manner, with only equal good conduct, be improved more slowly than those cultivated by the proprietor; on account of the large share of the produce which is consumed in the rent, and which, had the farmer been proprietor, he might have employed in the further improvement of the land. The station of a farmer besides is, from



the nature of things, inferior to that of a proprietor. Through the greater part of Europe the yeomanry are regarded as an inferior rank of people, even to the better sort of tradesmen and mechanics, and in all parts of Europe to the great merchants and master manufacturers. It can seldom happen, therefore, that a man of any considerable stock should quit the superior, in order to place himself in an inferior station. Even in the present state of Europe, therefore, little stock is likely to go from any other profession to the improvement of land in the way of farming. More does perhaps in Great Britain than in any other country, though even there the great stocks which are, in some places, employed in farming, have generally been acquired by farming, the trade, perhaps, in which of all others stock is commonly acquired most slowly. After small proprietors, however, rich and great farmers are, in every country, the principal improvers. There are more such perhaps in England than in any other European monarchy. In the republican governments of Holland and of Bern in Switzerland, the farmers are said to be not inferior to those of England.

The ancient policy of Europe was, over and above all this, unfavorable to the improvement and cultivation of land, whether carried on by the proprietor or by the farmer; first, by the general prohibition of the exportation of corn without a special licence, which seems to have been a very universal regulation; and secondly, by the restraints which were laid upon the inland commerce, not only of corn but of almost every



other part of the produce of the farm, by the absurd laws against engrossers, regrators, and forestallers, and by the privileges of fairs and markets. It has already been observed in what manner the prohibition of the exportation of corn, together with some encouragement given to the importation of foreign corn, obstructed the cultivation of ancient Italy, naturally the most fertile country in Europe, and at that time the seat of the greatest empire in the world. To what degree such restraints upon the inland commerce of this commodity, joined to the general prohibition of exportation, must have discouraged the cultivation of countries less fertile, and less favorably circumstanced, it is not perhaps very easy to imagine.

### CHAP. III.

*Of the Rise and progress of Cities and Towns, after the Fall of the Roman Empire.*

THE inhabitants of cities and towns were, after the fall of the Roman empire, not more favored than those of the country. They consisted, indeed, of a very different order of people from the first inhabitants of the ancient republics of Greece and Italy. These last were composed chiefly of the proprietors of lands, among whom the public territory was originally divided, and who found it convenient to build



their houses in the neighbourhood of one another, and to surround them with a wall, for the sake of common defence. After the fall of the Roman empire, on the contrary, the proprietors of land seem generally to have lived in fortified castles on their own estates, and in the midst of their own tenants and dependants. The towns were chiefly inhabited by tradesmen and mechanics, who seem in those days to have been of servile, or very nearly of servile condition. The privileges which we find granted by ancient charters to the inhabitants of some of the principal towns in Europe, sufficiently show what they were before those grants. The people to whom it is granted as a privilege, that they might give away their own daughters in marriage without the consent of their lord, that upon their death their own children, and not their lord, should succeed to their goods, and that they might dispose of their own effects by will, must, before those grants, have been either altogether, or very nearly in the same state of villanage with the occupiers of land in the country.

They seem, indeed, to have been a very poor, mean set of people, who used to travel about with their goods from place to place, and from fair to fair, like the hawkers and pedlars of the present times. In all the different countries of Europe then, in the same manner as in several of the Tartar governments of Asia at present, taxes used to be levied upon the persons and goods of travellers, when they passed through certain manors, when they went over certain bridges, when  
they



they carried about their goods from place to place in a fair, when they erected in it a booth or stall to sell them in. These different taxes were known in England by the names of passage, pontage, lastage, and stallage. Sometimes the king, sometimes a great lord, who had, it seems, upon some occasions, authority to do this, would grant to particular traders, to such particularly as lived in their own demesnes, a general exemption from such taxes. Such traders, though in other respects of servile, or very nearly of servile condition, were upon this account called Free-traders. They in return usually paid to their protector a sort of annual poll-tax. In those days protection was seldom granted without a valuable consideration, and this tax might, perhaps, be considered as compensation for what their patrons might lose by their exemption from other taxes. At first, both those poll-taxes and those exemptions seem to have been altogether personal, and to have affected only particular individuals, during either their lives, or the pleasure of their protectors. In the very imperfect accounts which have been published from Domesday-book, of several of the towns of England, mention is frequently made sometimes of the tax which particular burghers paid, each of them, either to the king, or to some other great lord, for this sort of protection; and sometimes of the general amount only of all those taxes\*.

\* See Brady's historical treatise of Cities and Boroughs, p. 3, &c.



But how servile soever may have been originally the condition of the inhabitants of the towns, it appears evidently, that they arrived at liberty and independency much earlier than the occupiers of land in the country. That part of the king's revenue which arose from such poll-taxes in any particular town, used commonly to be let in farm, during a term of years for a rent certain, sometimes to the sheriff of the county, and sometimes to other persons. The burghers themselves frequently got credit enough to be admitted to farm the revenues of this sort which arose out of their own town, they becoming jointly and severally answerable for the whole rent\*. To let a farm in this manner was quite agreeable to the usual œconomy of, I believe, the sovereigns of all the different countries of Europe; who used frequently to let whole manors to all the tenants of those manors, they becoming jointly and severally answerable for the whole rent; but in return being allowed to collect it in their own way, and to pay it into the king's exchequer by the hands of their own bailiff, and being thus altogether freed from the insolence of the king's officers; a circumstance in those days regarded as of the greatest importance.

At first, the farm of the town was probably let to the burghers, in the same manner as it had been to other farmers, for a term of years only. In process of time, however, it seems to

\* See Madox Firma Burgi, p. 18, also History of the Exchequer, chap. 10. sect. v. p. 223, first edition.



have become the general practice to grant it to them in fee, that is for ever, reserving a rent certain never afterwards to be augmented. The payment having thus become perpetual, the exemptions, in return for which it was made, naturally became perpetual too. Those exemptions, therefore, ceased to be personal, and could not afterwards be considered as belonging to individuals as individuals, but as burghers of a particular burgh, which, upon this account, was called a Free-burgh, for the same reason that they had been called Free-burghers or Freetraders.

Along with this grant, the important privileges above-mentioned, that they might give away their own daughters in marriage, that their children should succeed to them, and that they might dispose of their own effects by will, were generally bestowed upon the burghers of the town to whom it was given. Whether such privileges had before been usually granted along with the freedom of trade, to particular burghers, as individuals, I know not. I reckon it not improbable that they were, though I cannot produce any direct evidence of it. But however this may have been, the principal attributes of villanage and slavery being thus taken away from them, they now, at least, became really free in our present sense of the word Freedom.

Nor was this all. They were generally at the same time erected into a commonalty or corporation, with the privilege of having magistrates and a town-council of their own, of making



bye-laws for their own government, of building walls for their own defence, and of reducing all their inhabitants under a sort of military discipline, by obliging them to watch and ward; that is, as anciently understood, to guard and defend those walls against all attacks and surprises by night as well as by day. In England they were generally exempted from suit to the hundred and county courts; and all such pleas as should arise among them, the pleas of the crown excepted, were left to the decision of their own magistrates. In other countries much greater and more extensive jurisdictions were frequently granted to them\*.

It might, probably, be necessary to grant to such towns as were admitted to farm their own revenues, some sort of compulsive jurisdiction to oblige their own citizens to make payment. In those disorderly times it might have been extremely inconvenient to have left them to seek this sort of justice from any other tribunal. But it must seem extraordinary that the sovereigns of all the different countries of Europe, should have exchanged in this manner for a rent certain, never more to be augmented, that branch of their revenue, which was, perhaps, of all others the most likely to be improved by the natural course of things, without either expense or attention of their own: and that they should,

\* See Madox *Firma Burgi*; See also Pfeffel in the remarkable events under Frederic II. and his successors of the house of Suabia.



besides, have in this manner voluntarily erected a sort of independent republics in the heart of their own dominions.

In order to understand this, it must be remembered, that in those days the sovereign of perhaps no country in Europe was able to protect, through the whole extent of his dominions, the weaker part of his subjects from the oppression of the great lords. Those whom the law could not protect, and who were not strong enough to defend themselves, were obliged either to have recourse to the protection of some great lord, and in order to obtain it to become either his slaves or vassals; or to enter into a league of mutual defence for the common protection of one another. The inhabitants of cities and burghs, considered as single individuals, had no power to defend themselves; but by entering into a league of mutual defence with their neighbours, they were capable of making no contemptible resistance. The lords despised the burghers, whom they considered not only as of a different order, but as a parcel of emancipated slaves, almost of a different species from themselves. The wealth of the burghers never failed to provoke their envy and indignation, and they plundered them upon every occasion without mercy or remorse. The burghers naturally hated and feared the lords. The king hated and feared them too; but though perhaps he might despise, he had no reason either to hate or fear the burghers. Mutual interest, therefore, disposed them to support the king, and the king to support



them against the lords. They were the enemies of his enemies, and it was his interest to render them as secure and independent of those enemies as he could. By granting them magistrates of their own, the privilege of making bye-laws for their own government, that of building walls for their own defence, and that of reducing all their inhabitants under a sort of military discipline, he gave them all the means of security and independency of the barons which it was in his power to bestow. Without the establishment of some regular government of this kind, without some authority to compel their inhabitants to act according to some certain plan or system, no voluntary league of mutual defence could either have afforded them any permanent security, or have enabled them to give the king any considerable support. By granting them the farm of their town in fee, he took away from those whom he wished to have for his friends, and, if one may say so, for his allies, all ground of jealousy and suspicion that he was ever afterwards to oppress them, either by raising the farm rent of their own, or by granting it to some other farmer.

The princes who lived upon the worst terms with their barons, seem accordingly to have been the most liberal in grants of this kind to their burghs. King John of England, for example, appears to have been a most munificent benefactor to his towns\*. Philip the First of France lost all authority over his barons. Towards the

\* See Madox.



end of his reign, his son Lewis, known afterwards by the name of Lewis the Fat, consulted, according to Father Daniel, with the bishops of the royal demesnes, concerning the most proper means of restraining the violence of the great lords. Their advice consisted of two different proposals. One was to erect a new order of jurisdiction, by establishing magistrates and a town council in every considerable town of his demesnes. The other was to form a new militia, by making the inhabitants of those towns, under the command of their own magistrates, march out upon proper occasions to the assistance of the king. It is from this period, according to the French antiquarians, that we are to date the institution of the magistrates and councils of cities in France. It was during the unprosperous reigns of the princes of the house of Suabia that the greater part of the free towns of Germany received the first grants of their privileges, and that the famous Hanseatic league first became formidable\*.

The militia of the cities seems, in those times, not to have been inferior to that of the country, and as they could be more readily assembled upon any sudden occasion, they frequently had the advantage in their disputes with the neighbouring lords. In countries, such as Italy and Switzerland, in which, on account either of their distance from the principal seat of government, of the natural strength of the country

\* See Pfeffel.



itself, or of some other reason, the sovereign came to lose the whole of his authority, the cities generally became independent republics, and conquered all the nobility in their neighbourhood; obliging them to pull down their castles in the country, and to live, like other peaceable inhabitants, in the city. This is the short history of the republic of Berne, as well as of several other cities in Switzerland. If you except Venice, for of that city the history is somewhat different, it is the history of all the considerable Italian republics, of which so great a number arose and perished, between the end of the twelfth and the beginning of the sixteenth century.

In countries such as France or England, where the authority of the sovereign, though frequently very low, never was destroyed altogether, the cities had no opportunity of becoming entirely independent. They became, however, so considerable, that the sovereign could impose no tax upon them, besides the stated farm-rent of the town, without their own consent. They were, therefore, called upon to send deputies to the general assembly of the states of the kingdom, where they might join with the clergy and the barons in granting, upon urgent occasions, some extraordinary aid to the king. Being generally too more favorable to his power, their deputies seem, sometimes, to have been employed by him as a counter-balance in those assemblies to the authority of the great lords. Hence the origin



of the representation of burghs in the states general of all the great monarchies in Europe.

Order and good government, and along with them the liberty and security of individuals, were in this manner, established in cities, at a time when the occupiers of land in the country were exposed to every sort of violence. But men in this defenceless state naturally content themselves with their necessary subsistence; because to acquire more might only tempt the injustice of their oppressors. On the contrary, when they are secure of enjoying the fruits of their industry, they naturally exert it to better their condition, and to acquire not only the necessaries, but the conveniencies and elegancies of life. That industry, therefore, which aims at something more than necessary subsistence, was established in cities long before it was commonly practised by the occupiers of land in the country. If in the hands of a poor cultivator, oppressed with the servitude of villanage, some little stock should accumulate, he would naturally conceal it with great care from his master, to whom it would otherwise have belonged, and take the first opportunity of running away to a town. The law was at that time so indulgent to the inhabitants of towns, and so desirous of diminishing the authority of the lords over those of the country, that if he could conceal himself there from the pursuit of his lord for a year, he was free for ever. Whatever stock, therefore, accumulated in the hands of the industrious part of the inhabitants of the country, naturally took refuge in



cities, as the only sanctuaries in which it could be secure to the person that acquired it.

The inhabitants of a city, it is true, must always ultimately derive their subsistence, and the whole materials and means of their industry, from the country. But those of a city, situated near either the sea-coast or the banks of a navigable river, are not necessarily confined to derive them from the country in their neighbourhood. They have a much wider range, and may draw them from the most remote corners of the world, either in exchange for the manufactured produce of their own industry, or by performing the office of carriers between distant countries, and exchanging the produce of one for that of another. A city might in this manner grow up to great wealth and splendor, while not only the country in its neighbourhood, but all those to which it traded, were in poverty and wretchedness. Each of those countries, perhaps, taken singly, could afford it but a small part, either of its subsistence, or of its employment; but all of them taken together could afford it both a great subsistence and a great employment. There were, however, within the narrow circle of the commerce of those times, some countries that were opulent and industrious. Such was the Greek empire as long as it subsisted, and that of the Saracens during the reigns of the Abbassides. Such too was Egypt till it was conquered by the Turks, some part of the coast of Barbary, and all those provinces of Spain which were under the government of the Moors.



The cities of Italy seem to have been the first in Europe which were raised by commerce to any considerable degree of opulence. Italy lay in the centre of what was at that time the improved and civilized part of the world. The crusades too, though, by the great waste of stock and destruction of inhabitants which they occasioned, they must necessarily have retarded the progress of the greater part of Europe, were extremely favorable to that of some Italian cities. The great armies which marched from all parts to the conquest of the Holy Land, gave extraordinary encouragement to the shipping of Venice, Genoa, and Pisa, sometimes in transporting them thither, and always in supplying them with provisions. They were the commissaries, if one may say so, of those armies; and the most destructive frenzy that ever befel the European nations, was a source of opulence to those republics.

The inhabitants of trading cities, by importing the improved manufactures and expensive luxuries of richer countries, afforded some food to the vanity of the great proprietors, who eagerly purchased them with great quantities of the rude produce of their own lands. The commerce of a great part of Europe in those times accordingly, consisted chiefly in the exchange of their own rude, for the manufactured produce of more civilized nations. Thus the wool of England used to be exchanged for the wines of France, and the fine cloths of Flanders, in the same manner as the corn in Poland is at this



day exchanged for the wines and brandies of France, and for the silks and velvets of France and Italy.

A taste for the finer and more improved manufactures, was in this manner introduced by foreign commerce into countries where no such works were carried on. But when this taste became so general as to occasion a considerable demand, the merchants, in order to save the expense of carriage, naturally endeavoured to establish some manufactures of the same kind in their own country. Hence the origin of the first manufactures for distant sale that seem to have been established in the western provinces of Europe, after the fall of the Roman empire.

No large country, it must be observed, ever did or could subsist without some sort of manufactures being carried on in it; and when it is said of any such country that it has no manufactures, it must always be understood of the finer and more improved, or of such as are fit for distant sale. In every large country, both the clothing and household furniture of the far greater part of the people, are the produce of their own industry. This is even more universally the case in those poor countries which are commonly said to have no manufactures, than in those rich ones that are said to abound in them. In the latter, you will generally find, both in the clothes and household furniture of the lowest rank of people, a much greater proportion of foreign productions than in the former.



Those manufactures which are fit for distant sale, seem to have been introduced into different countries in two different ways.

Sometimes they have been introduced, in the manner above-mentioned, by the violent operation, if one may say so, of the stocks of particular merchants and undertakers, who established them in imitation of some foreign manufactures of the same kind. Such manufactures, therefore, are the offsprings of foreign commerce, and such seem to have been the ancient manufactures of silks, velvets, and brocades, which flourished in Lucca during the thirteenth century. They were banished from thence by the tyranny of one of Machiavel's heroes, Castruccio Castracani. In 1310, nine hundred families were driven out of Lucca, of whom thirty-one retired to Venice, and offered to introduce there the silk manufacture\*. Their offer was accepted; many privileges were conferred upon them, and they began the manufacture with three hundred workmen. Such too seem to have been the manufactures of fine cloths that anciently flourished in Flanders, and which were introduced into England in the beginning of the reign of Elizabeth; and such are the present silk manufactures of Lyons and Spital-fields. Manufactures introduced in this manner are generally employed upon foreign materials, being imitations of foreign manufactures. When the Venetian manufacture

\* See Sandi Istoria Civile de Venezia, Part 2. vol. i. page 247, and 256.



was first established, the materials were all brought from Sicily and the Levant. The more ancient manufacture of Lucca was likewise carried on with foreign materials. The cultivation of mulberry trees, and the breeding of silkworms, seem not to have been common in the northern parts of Italy before the sixteenth century. Those arts were not introduced into France till the reign of Charles IX. The manufactures of Flanders were carried on chiefly with Spanish and English wool. Spanish wool was the material, not of the first woollen manufacture of England, but of the first that was fit for distant sale. More than one half the materials of the Lyons manufacture is at this day foreign silk; when it was first established, the whole or very nearly the whole was so. No part of the materials of the Spital-fields manufacture is ever likely to be the produce of England. The seat of such manufactures, as they are generally introduced by the scheme and project of a few individuals, is sometimes established in a maritime city, and sometimes in an inland town, according as their interest, judgment or caprice happen to determine.

At other times manufactures for distant sale grow up naturally, and as it were of their own accord, by the gradual refinement of those household and coarser manufactures which must at all times be carried on even in the poorest and rudest countries. Such manufactures are generally employed upon the materials which the country produces, and they seem frequently to



have been first refined and improved in such inland countries as were, not indeed at a very great, but at a considerable distance from the sea coast, and sometimes even from all water carriage. An inland country naturally fertile and easily cultivated, produces a great surplus of provisions beyond what is necessary for maintaining the cultivators, and on account of the expense of land carriage, and inconvenience of river navigation, it may frequently be difficult to send this surplus abroad. Abundance, therefore, renders provisions cheap, and encourages a great number of workmen to settle in the neighbourhood, who find that their industry can there procure them more of the necessaries and conveniences of life than in other places. They work up the materials of manufacture which the land produces, and exchange their finished work, or what is the same thing the price of it, for more materials and provisions. They give a new value to the surplus part of the rude produce, by saving the expense of carrying it to the water side, or to some distant market; and they furnish the cultivators with something in exchange for it that is either useful or agreeable to them, upon easier terms than they could have obtained it before. The cultivators get a better price for their surplus produce, and can purchase cheaper other conveniences which they have occasion for. They are thus both encouraged and enabled to increase this surplus produce by a further improvement and better cultivation of the land; and as the fertility of the land had given birth



to the manufacture, so the progress of the manufacture re-acts upon the land, and increases still further its fertility. The manufacturers first supply the neighbourhood, and afterwards, as their work improves and refines, more distant markets. For though neither the rude produce, nor even the coarse manufacture, could, without the greatest difficulty, support the expense of a considerable land carriage, the refined and improved manufacture easily may. In a small bulk it frequently contains the price of a great quantity of rude produce. A piece of fine cloth, for example, which weighs only eighty pounds, contains in it, the price, not only of eighty pounds weight of wool, but sometimes of several thousand weight of corn, the maintenance of the different working people, and of their immediate employers. The corn, which could with difficulty have been carried abroad in its own shape, is in this manner virtually exported in that of the compleat manufacture, and may easily be sent to the remotest corners of the world. In this manner have grown up naturally, and as it were of their own accord, the manufactures of Leeds, Halifax, Sheffield, Birmingham, and Wolverhampton. Such manufactures are the offspring of agriculture. In the modern history of Europe, their extension and improvement have generally been posterior to those which were the offspring of foreign commerce. England was noted for the manufacture of fine cloths made of Spanish wool, more than a century before any of those which now flourish in the places above-mentioned



mentioned were fit for foreign sale. The extension and improvement of these last could not take place but in consequence of the extension and improvement of agriculture, the last and greatest effect of foreign commerce, and of the manufactures immediately introduced by it, and which I shall now proceed to explain.

#### CHAP. IV.

*How the Commerce of the Towns contributed to the Improvement of the Country.*

THE increase and riches of commercial and manufacturing towns, contributed to the improvement and cultivation of the countries to which they belonged, in three different ways.

First, by affording a great and ready market for the rude produce of the country, they gave encouragement to its cultivation and further improvement. This benefit was not even confined to the countries in which they were situated, but extended more or less to all those with which they had any dealings. To all of them they afforded a market for some part either of their rude or manufactured produce, and consequently gave some encouragement to the industry and improvement of all. Their own country, however, on account of its neighbourhood, necessarily derived the greatest benefit from this market.



Its rude produce being charged with less carriage, the traders could pay the growers a better price for it, and yet afford it as cheap to the consumers as that of more distant countries.

Secondly, the wealth acquired by the inhabitants of cities was frequently employed in purchasing such lands as were to be sold, of which a great part would frequently be uncultivated. Merchants are commonly ambitious of becoming country gentlemen, and when they do, they are generally the best of all improvers. A merchant is accustomed to employ his money chiefly in profitable projects; whereas a mere country gentleman is accustomed to employ it chiefly in expense. The one often sees his money go from him and return to him again with a profit: the other, when once he parts with it, very seldom expects to see any more of it. Those different habits naturally affect their temper and disposition in every sort of business. A merchant is commonly a bold; a country gentleman, a timid undertaker. The one is not afraid to lay out at once a large capital upon the improvement of his land, when he has a probable prospect of raising the value of it in proportion to the expense. The other, if he has any capital, which is not always the case, seldom ventures to employ it in this manner. If he improves at all, it is commonly not with a capital, but with what he can save out of his annual revenue. Whoever has had the fortune to live in a mercantile town situated in a unimproved country, must have frequently observed how much more spirited



the operations of merchants were in this way, than those of mere country gentlemen. The habits, besides, of order, œconomy and attention, to which mercantile business naturally forms a merchant, render him much fitter to execute, with profit and success, any project of improvement.

Thirdly, and lastly, commerce and manufactures gradually introduced order and good government, and with them, the liberty and security of individuals, among the inhabitants of the country, who had before lived almost in a continual state of war with their neighbours, and of servile dependency upon their superiors. This, though it has been the least observed, is by far the most important of all their effects. Mr. Hume is the only writer who, so far as I know, has hitherto taken notice of it.

In a country which has neither foreign commerce, nor any of the finer manufactures, a great proprietor, having nothing for which he can exchange the greater part of the produce of his lands which is over and above the maintenance of the cultivators, consumes the whole in rustic hospitality at home. If this surplus produce is sufficient to maintain a hundred or a thousand men, he can make use of it in no other way than by maintaining a hundred or a thousand men. He is at all times, therefore, surrounded with a multitude of retainers and dependants, who having no equivalent to give in return for their maintenance, but being fed entirely by his bounty, must obey him, for the same reason that soldiers



must obey the prince who pays them. Before the extension of commerce and manufactures in Europe, the hospitality of the rich and the great, from the sovereign down to the smallest baron, exceeded every thing which in the present times we can easily form a notion of. Westminster hall was the dining-room of William Rufus, and might frequently, perhaps, not be too large for his company. It was reckoned a piece of magnificence in Thomas Becket, that he strowed the floor of his hall with clean hay or rushes in the season, in order that the knights and squires, who could not get seats, might not spoil their fine cloths when they sat down on the floor to eat their dinner. The great earl of Warwick is said to have entertained every day at his different manors, thirty thousand people; and though the number here may have been exaggerated, it must, however, have been very great to admit of such exaggeration. A hospitality nearly of the same kind was exercised not many years ago in many different parts of the highlands of Scotland. It seems to be common in all nations to whom commerce and manufactures are little known. I have seen, says Doctor Pocock, an Arabian chief dine in the streets of a town where he had come to sell his cattle, and invite all passengers, even common beggars, to sit down with him and partake of his banquet.

The occupiers of land were in every respect as dependent upon the great proprietor as his retainers. Even such of them as were not in a state of villanage, were tenants at will, who paid



a rent in no respect equivalent to the subsistence which the land afforded them. A crown, half a crown, a sheep, a lamb, was some years ago in the highlands of Scotland a common rent for lands which maintained a family. In some places it is so at this day; nor will money at present purchase a greater quantity of commodities there than in other places. In a country where the surplus produce of a large estate must be consumed upon the estate itself, it will frequently be more convenient for the proprietor, that part of it be consumed at a distance from his own house, provided they who consume it are as dependent upon him as either his retainers or his menial servants. He is thereby saved from the embarrassment of either too large a company or too large a family. A tenant at will, who possesses land sufficient to maintain his family for little more than a quit-rent, is as dependent upon the proprietor as any servant or retainer whatever, and must obey him with as little reserve. Such a proprietor, as he feeds his servants and retainers at his own house, so he feeds his tenants at their houses. The subsistence of both is derived from his bounty, and its continuance depends upon his good pleasure.

Upon the authority which the great proprietors necessarily had in such a state of things over their tenants and retainers, was founded the power of the ancient barons. They necessarily became the judges in peace, and the leaders in war, of all who dwelt upon their estates. They could maintain order and execute the law within their



respective demesnes, because each of them could there turn the whole force of all the inhabitants against the injustice of any one. No other person had sufficient authority to do this. The king in particular had not. In those ancient times he was little more than the greatest proprietor in his dominions, to whom, for the sake of common defence against their common enemies, the other great proprietors paid certain respects. To have enforced payment of a small debt within the lands of a great proprietor, where all the inhabitants were armed and accustomed to stand by one another, would have cost the king, had he attempted it by his own authority, almost the same efforts as to extinguish a civil war. He was, therefore, obliged to abandon the administration of justice through the greater part of the country, to those who were capable of administering it; and for the same reason to leave the command of the country militia to those whom that militia would obey.

It is a mistake to imagine that those territorial jurisdictions took their origin from the feudal law. Not only the highest jurisdictions both civil and criminal, but the power of levying troops, of coining money, and even that of making byelaws for the government of their own people, were all rights possessed allodially by the great proprietors of land several centuries before even the name of the feudal law was known in Europe. The authority and jurisdiction of the Saxon lords in England, appear to have been as great before the conquest, as that of any of the Norman



lords after it. But the feudal law is not supposed to have become the common law of England till after the conquest. That the most extensive authority and jurisdictions were possessed by the great lords in France allodially, long before the feudal law was introduced into that country, is a matter of fact that admits of no doubt. That authority and those jurisdictions all necessarily flowed from the state of property and manners just now described. Without remounting to the remote antiquities of either the French or English monarchies, we may find in much later times many proofs that such effects must always flow from such causes. It is not thirty years ago since Mr. Cameron of Lochiel, a gentleman of Lochabar in Scotland, without any legal warrant whatever, not being what was then called a lord of regality, nor even a tenant in chief, but a vassal of the duke of Argyle, and without being so much as a justice of peace, used, notwithstanding, to exercise the highest criminal jurisdiction over his own people. He is said to have done so with great equity, though without any of the formalities of justice; and it is not improbable that the state of that part of the country at that time made it necessary for him to assume this authority in order to maintain the public peace. That gentleman, whose rent never exceeded five hundred pounds a year, carried, in 1745, eight hundred of his own people into the rebellion with him.



The introduction of the feudal law, so far from extending, may be regarded as an attempt to moderate the authority of the great allodial lords. It established a regular subordination, accompanied with a long train of services and duties, from the king down to the smallest proprietor. During the minority of the proprietor, the rent, together with the management of his lands, fell into the hands of the immediate superior, and, consequently, those of all great proprietors into the hands of the king, who was charged with the maintenance and education of the pupil, and who, from his authority as guardian, was supposed to have a right of disposing of him in marriage, provided it was in a manner not unfuitable to his rank. But though this institution necessarily tended to strengthen the authority of the king, and to weaken that of the great proprietors, it could not do either sufficiently for establishing order and good government among the inhabitants of the country; because it could not alter sufficiently that state of property and manners from which the disorders arose. The authority of government still continued to be, as before, too weak in the head and too strong in the inferior members, and the excessive strength of the inferior members was the cause of the weakness of the head. After the institution of feudal subordination, the king was as incapable of restraining the violence of the great lords as before. They still continued to make war according to their own discretion,



almost continually upon one another, and very frequently upon the king; and the open country still continued to be a scene of violence, rapine, and disorder.

But what all the violence of the feudal institutions could never have effected, the silent and insensible operation of foreign commerce and manufactures gradually brought about. These gradually furnished the great proprietors with something for which they could exchange the whole surplus produce of their lands, and which they could consume themselves without sharing it either with tenants or retainers. All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind. As soon, therefore, as they could find a method of consuming the whole value of their rents themselves, they had no disposition to share them with any other persons. For a pair of diamond buckles perhaps, or for something as frivolous and useless, they exchanged the maintenance, or what is the same thing, the price of the maintenance of a thousand men for a year, and with it the whole weight and authority which it could give them. The buckles, however, were to be all their own, and no other human creature was to have any share of them; whereas in the more ancient method of expense they must have shared with at least a thousand people. With the judges that were to determine the preference, this difference was perfectly decisive; and thus, for the gratification of the most childish, the meanest and



the most sordid of all vanities, they gradually bartered their whole power and authority.

In a country where there is no foreign commerce, nor any of the finer manufactures, a man of ten thousand a year cannot well employ his revenue in any other way than in maintaining, perhaps, a thousand families, who are all of them necessarily at his command. In the present state of Europe, a man of ten thousand a year can spend his whole revenue, and he generally does so, without directly maintaining twenty people, or being able to command more than ten footmen not worth the commanding. Indirectly, perhaps, he maintains as great or even a greater number of people than he could have done by the ancient method of expense. For though the quantity of precious productions for which he exchanges his whole revenue be very small, the number of workmen employed in collecting and preparing it, must necessarily have been very great. Its great price generally arises from the wages of their labor, and the profits of all their immediate employers. By paying that price he indirectly pays all those wages and profits, and thus indirectly contributes to the maintenance of all the workmen and their employers. He generally contributes, however, but a very small proportion to that of each, to very few perhaps a tenth, to many not a hundredth, and to some not a thousandth, nor even a ten thousandth part of their whole annual maintenance. Though he contributes, therefore, to the maintenance of them all, they are all more or less independent



of him, because generally they can all be maintained without him.

When the great proprietors of land spend their rents in maintaining their tenants and retainers, each of them maintains entirely all his own tenants and all his own retainers. But when they spend them in maintaining tradesmen and artificers, they may, all of them taken together, perhaps, maintain as great, or, on account of the waste which attends rustic hospitality, a greater number of people than before. Each of them, however, taken singly, contributes often but a very small share to the maintenance of any individual of this greater number. Each tradesman or artificer derives his subsistence from the employment, not of one, but of a hundred or a thousand different customers. Though in some measure obliged to them all, therefore, he is not absolutely dependent upon any one of them.

The personal expense of the great proprietors having in this manner gradually increased, it was impossible that the number of their retainers should not as gradually diminish, till they were at last dismissed altogether. The same cause gradually led them to dismiss the unnecessary part of their tenants. Farms were enlarged, and the occupiers of land, notwithstanding the complaints of depopulation, reduced to the number necessary for cultivating it, according to the imperfect state of cultivation and improvement in those times. By the removal of the unnecessary mouths, and by exacting from the farmer the full value of the farm, a greater surplus, or what



in the same thing, the price of a greater surplus, was obtained for the proprietor, which the merchants and manufacturers soon furnished him with a method of spending upon his own person in the same manner as he had done the rest. The same cause continuing to operate, he was desirous to raise his rents above what his lands, in the actual state of their improvement, could afford. His tenants could agree to this upon one condition only, that they should be secured in their possession, for such a term of years as might give them time to recover with profit whatever they should lay out in the further improvement of the land. The expensive vanity of the landlord made him willing to accept of this condition; and hence the origin of long leases.

Even a tenant at will, who pays the full value of the land, is not altogether dependent upon the landlord. The pecuniary advantages which they receive from one another, are mutual and equal, and such a tenant will expose neither his life nor his fortune in the service of the proprietor. But if he has a lease for a long term of years, he is altogether independent; and his landlord must not expect from him even the most trifling service beyond what is either expressly stipulated in the lease, or imposed upon him by the common and known law of the country.

The tenants having in this manner become independent, and the retainers being dismissed, the great proprietors were no longer capable of interrupting the regular execution of justice, or



of disturbing the peace of the country. Having sold their birth-right, not like Esau for a mess of pottage in time of hunger and necessity, but in the wantonness of plenty, for trinkets and baubles, fitter to be the play-things of children than the serious pursuits of men, they became as insignificant as any substantial burgher or tradesman in a city. A regular government was established in the country as well in the city, nobody having sufficient power to disturb its operations in the one, any more than in the other.

It does not, perhaps, relate to the present subject, but I cannot help remarking it, that very old families, such as have possessed some considerable estate from father to son for many successive generations, are very rare in commercial countries. In countries which have little commerce, on the contrary, such as Wales or the highlands of Scotland, they are very common. The Arabian histories seem to be all full of genealogies, and there is a history written by a Tartar Khan, which has been translated into several European languages, and which contains scarce any thing else; a proof that ancient families are very common among those nations. In countries where a rich man can spend his revenue in no other way than by maintaining as many people as it can maintain, he is not apt to run out, and his benevolence it seems is seldom so violent as to attempt to maintain more than he can afford. But where he can spend the greatest revenue upon his own person, he frequently has



no bounds to his expense, because he frequently has no bounds to his vanity, or to his affection for his own person. In commercial countries, therefore, riches, in spite of the most violent regulations of law to prevent their dissipation, very seldom remain long in the same family. Among simple nations, on the contrary, they frequently do without any regulations of law; for among nations of shepherds, such as the Tartars and Arabs, the consumable nature of their property necessarily renders all such regulations impossible.

A revolution of the greatest importance to the public happiness, was in this manner brought about by two different orders of people, who had not the least intention to serve the public. To gratify the most childish vanity was the sole motive of the great proprietors. The merchants and artificers, much less ridiculous, acted merely from a view to their own interest, and in pursuit of their own pedlar principle of turning a penny wherever a penny was to be got. Neither of them had either knowledge or foresight of that great revolution which the folly of the one, and the industry of the other, was gradually bringing about.

It is thus that through the greater part of Europe the commerce and manufactures of cities, instead of being the effect, have been the cause and occasion of the improvement and cultivation of the country.

This order, however, being contrary to the natural course of things, is necessarily both slow and uncertain. Compare the slow progress of



those European countries of which the wealth depends very much upon their commerce and manufactures, with the rapid advances of our North-American colonies, of which the wealth is founded altogether in agriculture. Through the greater part of Europe, the number of inhabitants is not supposed to double in less than five hundred years. In several of our North-American colonies, it is found to double in twenty or five-and-twenty years. In Europe, the law of primogeniture, and perpetuities, of different kinds, prevent the division of great estates, and thereby hinder the multiplication of small proprietors. A small proprietor, however, who knows every part of his little territory, who views it with all the affection which property, especially small property, naturally inspires, and who upon that account takes pleasure not only in cultivating but in adorning it, is generally of all improvers the most industrious, the most intelligent, and the most successful. The same regulations, besides, keep so much land out of the market, that there are always more capitals to buy than there is land to sell, so that what is sold always sells at a monopoly price. The rent never pays the interest of the purchase-money, and is besides burdened with repairs and other occasional charges, to which the interest of money is not liable. To purchase land is every-where in Europe a most unprofitable employment of a small capital. For the sake of the superior security, indeed, a man of moderate circumstances, when he retires from business, will sometimes



chuse to lay out his little capital in land. A man of profession too, whose revenue is derived from another source, often loves to secure his savings in the same way. But a young man, who, instead of applying to trade or to some profession, should employ a capital of two or three thousand pounds in the purchase and cultivation of a small piece of land, might indeed expect to live very happily, and very independently, but must bid adieu, for ever, to all hope of either great fortune or great illustration, which by a different employment of his stock he might have had the same chance of acquiring with other people. Such a person too, though he cannot aspire at being a proprietor, will often disdain to be a farmer. The small quantity of land, therefore, which is brought to market, and the high price of what is brought thither, prevents a great number of capitals from being employed in its cultivation and improvement which would otherwise have taken that direction. In North America, on the contrary, fifty or sixty pounds is often found a sufficient stock to begin a plantation with. The purchase and improvement of uncultivated land, is there the most profitable employment of the smallest as well as of the greatest capitals, and the most direct road to all the fortune and illustration which can be acquired in that country. Such land, indeed, is in North-America to be had almost for nothing, or at a price much below the value of the natural produce; a thing impossible in Europe, or, indeed, in any country where all lands have long been private



private property. If landed estates, however, were divided equally among all the children, upon the death of any proprietor who left a numerous family, the estate would generally be sold. So much land would come to market, that it could no longer sell at a monopoly price. The free rent of the land would go nearer to pay the interest of the purchase-money, and a small capital might be employed in purchasing land as profitably as in any other way.

England, on account of the natural fertility of the soil, of the great extent of the sea-coast in proportion to that of the whole country, and of the many navigable rivers which run through it, and afford the conveniency of water carriage to some of the most inland parts of it, is perhaps as well fitted by nature as any large country in Europe, to be the seat of foreign commerce, of manufactures for distant sale, and of all the improvements which these can occasion. From the beginning of the reign of Elizabeth too, the English legislature has been peculiarly attentive to the interests of commerce and manufactures, and in reality there is no country in Europe, Holland itself not excepted, of which the law is, upon the whole, more favorable to this sort of industry. Commerce and manufactures have accordingly been continually advancing during all this period. The cultivation and improvement of the country has, no doubt, been gradually advancing too: but it seems to have followed slowly, and at a distance, the more rapid progress of commerce and manufactures. The greater



part of the country must probably have been cultivated before the reign of Elizabeth ; and a very great part of it still remains uncultivated , and the cultivation of the far greater part , much inferior to what it might be. The law of England, however, favors agriculture not only indirectly by the protection of commerce , but by several direct encouragements. Except in times of scarcity , the exportation of corn is not only free, but encouraged by a bounty. In times of moderate plenty , the importation of foreign corn is loaded with duties that amount to a prohibition. The importation of live cattle , except from Ireland, is prohibited at all times , and it is but of late that it was permitted from thence. Those who cultivate the land, therefore, have a monopoly against their countrymen for the two greatest and most important articles of land produce , bread and butcher's meat. These encouragements , though at bottom, perhaps, as I shall endeavour to show hereafter , altogether illusory , sufficiently demonstrate at least the good intention of the legislature to favor agriculture. But what is of much more importance than all of them , the yeomanry of England are rendered as secure , as independent , and as respectable as law can make them. No country , therefore , in which the right of primogeniture takes place , which pays tithes , and where perpetuities, though contrary to the spirit of the law , are admitted in some cases , can give more encouragement to agriculture than England. Such , however , notwithstanding , is the state of its cultivation.



What would it have been, had the law given no direct encouragement to agriculture besides what arises indirectly from the progress of commerce, and had left the yeomanry in the same condition as in most other countries of Europe? It is now more than two hundred years since the beginning of the reign of Elizabeth, a period as long as the course of human prosperity usually endures.

France seems to have had a considerable share of foreign commerce near a century before England was distinguished as a commercial country. The marine of France was considerable, according to the notions of the times, before the expedition of Charles the VIIIth to Naples. The cultivation and improvement of France, however, is, upon the whole, inferior to that of England. The law of the country has never given the same direct encouragement to agriculture.

The foreign commerce of Spain and Portugal to the other parts of Europe, though chiefly carried on in foreign ships, is very considerable. That to their colonies is carried on in their own, and is much greater, on account of the great riches and extent of those colonies. But it has never introduced any considerable manufactures for distant sale into either of those countries, and the greater part of both still remains uncultivated. The foreign commerce of Portugal is of older standing than that of any great country in Europe, except Italy.

Italy is the only great country of Europe which seems to have been cultivated and improved



in every part, by means of foreign commerce and manufactures for distant sale. Before the invasion of Charles the VIIIth, Italy, according to Guicciardin, was cultivated not less in the most mountainous and barren parts of the country, than in the plainest and most fertile. The advantageous situation of the country, and the great number of independent states which at that time subsisted in it, probably contributed not a little to this general cultivation. It is not impossible too, notwithstanding this general expression of one of the most judicious and reserved of modern historians, that Italy was not at that time better cultivated than England is at present.

The capital, however, that is acquired to any country by commerce and manufactures, is all a very precarious and uncertain possession, till some part of it has been secured and realized in the cultivation and improvement of its lands. A merchant, it has been said very properly, is not necessarily the citizen of any particular country. It is in a great measure indifferent to him from what place he carries on his trade; and a very trifling disgust will make him remove his capital, and together with it all the industry which it supports, from one country to another. No part of it can be said to belong to any particular country, till it has been spread as it were over the face of that country, either in buildings, or in the lasting improvement of lands. No vestige now remains of the great wealth, said to have been possessed by the greater part of the Hans-towns,



except in the obscure histories of the thirteenth and fourteenth centuries. It is even uncertain where some of them were situated, or to what towns in Europe the Latin names given to some of them belong. But though the misfortunes of Italy in the end of the fifteenth and beginning of the sixteenth centuries greatly diminished the commerce and manufactures of the cities of Lombardy and Tuscany, those countries still continue to be among the most populous and best cultivated in Europe. The civil wars of Flanders, and the Spanish government which succeeded them, chased away the great commerce of Antwerp, Ghent, and Bruges. But Flanders still continues to be one of the richest, best cultivated, and most populous provinces of Europe. The ordinary revolutions of war and government easily dry up the sources of that wealth which arises from commerce only. That which arises from the more solid improvement of agriculture, is much more durable, and cannot be destroyed but by those more violent convulsions occasioned by the depredations of hostile and barbarous nations continued for a century or two together; such as those that happened for some time before and after the fall of the Roman empire in the western provinces of Europe.



## B O O K IV.

Of Systems of political Oeconomy.

## I N T R O D U C T I O N.

**P**OLITICAL œconomy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects: first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or common-wealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign.

The different progress of opulence in different ages and nations, has given occasion to two different systems of political œconomy, with regard to enriching the people. The one may be called the system of commerce, the other that of agriculture. I shall endeavour to explain both as fully and distinctly as I can, and shall begin with the system of commerce. It is the modern system, and is best understood in our own country and in our own times.



## C H A P. I.

*Of the Principle of the commercial, or mercantile System.*

**T**HAT wealth consists in money, or in gold and silver, is a popular notion which naturally arises from the double function of money, as the instrument of commerce, and as the measure of value. In consequence of its being the instrument of commerce, when we have money we can more readily obtain whatever else we have occasion for, than by means of any other commodity. The great affair, we always find, is to get money. When that is obtained, there is no difficulty in making any subsequent purchase. In consequence of its being the measure of value, we estimate that of all other commodities by the quantity of money which they will exchange for. We say of a rich man that he is worth a great deal, and of a poor man that he is worth very little money. A frugal man, or a man eager to be rich, is said to love money; and a careless, a generous, or a profuse man, is said to be indifferent about it. To grow rich is to get money; and wealth and money, in short, are, in common language, considered as in every respect synonymous.

A rich country, in the same manner as a rich man, is supposed to be a country abounding in money; and to heap up gold and silver in any



country is supposed to be the readiest way to enrich it. For some time after the discovery of America, the first inquiry of the Spaniards, when they arrived upon any unknown coast, used to be, if there was any gold or silver to be found in the neighbourhood? By the information which they received, they judged whether it was worth while to make a settlement there, or if the country was worth the conquering. Plano Carpino, a monk sent ambassador from the king of France to one of the sons of the famous Gengis Khan, says that the Tartars used frequently to ask him, if there was plenty of sheep and oxen in the kingdom of France? Their inquiry had the same object with that of the Spaniards. They wanted to know if the country was rich enough to be worth the conquering. Among the Tartars, as among all other nations of shepherds, who are generally ignorant of the use of money, cattle are the instruments of commerce and the measures of value. Wealth, therefore, according to them, consisted in cattle, as according to the Spaniards it consisted in gold and silver. Of the two, the Tartar notion, perhaps, was the nearest to the truth.

Mr. Locke remarks a distinction between money and other moveable goods. All other moveable goods, he says, are of so consumable a nature that the wealth which consists in them cannot be much depended on, and a nation which abounds in them one year may, without any exportation, but merely by their own waste and extravagance, be in great want of them the



next. Money, on the contrary, is a steady friend, which, though it may travel about from hand to hand, yet if it can be kept from going out of the country, is not very liable to be wasted and consumed. Gold and silver, therefore, are, according to him, the most solid and substantial part of the moveable wealth of a nation, and to multiply those metals ought, he thinks, upon that account, to be the great object of its political œconomy.

Others admit that if a nation could be separated from all the world, it would be of no consequence how much, or how little money circulated in it. The consumable goods which were circulated by means of this money, would only be exchanged for a greater or a smaller number of pieces; but the real wealth or poverty of the country, they allow, would depend altogether upon the abundance or scarcity of those consumable goods. But it is otherwise, they think, with countries which have connexions with foreign nations, and which are obliged to carry on foreign wars, and to maintain fleets and armies in distant countries. This, they say, cannot be done, but by sending abroad money to pay them with; and a nation cannot send much money abroad, unless it has a good deal at home. Every such nation, therefore, must endeavour in time of peace to accumulate gold and silver, that, when occasion requires, it may have where-withal to carry on foreign wars.

In consequence of these popular notions, all the different nations of Europe have studied, though to little purpose, every possible means of



accumulating gold and silver in their respective countries. Spain and Portugal, the proprietors of the principal mines which supply Europe with those metals, have either prohibited their exportation under the severest penalties, or subjected it to a considerable duty. The like prohibition seems anciently to have made a part of the policy of most other European nations. It is even to be found, where we should least of all expect to find it, in some old Scotch acts of parliament, which forbid under heavy penalties the carrying gold or silver *forth of the kingdom*. The like policy anciently took place both in France and England.

When those countries became commercial, the merchants found this prohibition, upon many occasions, extremely inconvenient. They could frequently buy more advantageously with gold and silver than with any other commodity, the foreign goods which they wanted, either to import into their own, or to carry to some other foreign country. They remonstrated, therefore, against this prohibition as hurtful to trade.

They represented, first, that the exportation of gold and silver in order to purchase foreign goods, did not always diminish the quantity of those metals in the kingdom. That, on the contrary, it might frequently increase that quantity; because, if the consumption of foreign goods was not thereby increased in the country, those goods might be re-exported to foreign countries, and being there sold for a large profit, might bring back much more treasure



than was originally sent out to purchase them. Mr. Mun compares this operation of foreign trade to the seed-time and harvest of agriculture. "If we only behold," says he, "the actions of the husbandman in the seed-time, when he casteth away much good corn into the ground, we shall account him rather a madman than a husbandman. But when we consider his labors in the harvest, which is the end of his endeavours, we shall find the worth and plentiful increase of his actions."

They represented, secondly, that this prohibition could not hinder the exportation of gold and silver, which, on account of the smallness of their bulk in proportion to their value, could easily be smuggled abroad. That this exportation could only be prevented by a proper attention to, what they called, the balance of trade. That when the country exported to a greater value than it imported, a balance became due to it from foreign nations, which was necessarily paid to it in gold and silver, and thereby increased the quantity of those metals in the kingdom. But that when it imported to a greater value than it exported, a contrary balance became due to foreign nations, which was necessarily paid to them in the same manner, and thereby diminished that quantity. That in this case to prohibit the exportation of those metals could not prevent it, but only, by making it more dangerous, render it more expensive. That the exchange was thereby turned more against the country which owed the balance, than



it otherwise might have been, the merchant who purchased a bill upon the foreign country being obliged to pay the banker who sold it, not only for the natural risk, trouble and expence of sending the money thither, but for the extraordinary risk arising from the prohibition. But that the more the exchange was against any country, the more the balance of trade became necessarily against it; the money of that country becoming necessarily of so much less value, in comparison with that of the country to which the balance was due. That if the exchange between England and Holland, for example, was five per cent. against England, it would require a hundred and five ounces of silver in England to purchase a bill for a hundred ounces of silver in Holland: that a hundred and five ounces of silver in England, therefore, would be worth only a hundred ounces of silver in Holland, and would purchase only a proportionable quantity of Dutch goods: but that a hundred ounces of silver in Holland, on the contrary, would be worth a hundred and five ounces in England, and would purchase a proportionable quantity of English goods: that the English goods which were sold to Holland would be sold so much cheaper; and the Dutch goods which were sold to England, so much dearer, by the difference of the exchange; that the one would draw so much less Dutch money to England, and the other so much more English money to Holland, as this difference amounted to: and that the balance of trade, therefore, would necessarily be



so much more against England, and would require a greater balance of gold and silver to be exported to Holland.

Those arguments were partly solid and partly sophistical. They were solid so far as they asserted that the exportation of gold and silver in trade might frequently be advantageous to the country. They were solid too, in asserting that no prohibition could prevent their exportation, when private people found any advantage in exporting them. But they were sophistical in supposing, that either to preserve or to augment the quantity of those metals required more the attention of government, than to preserve or to augment the quantity of any other useful commodities, which the freedom of trade, without any such attention, never fails to supply in the proper quantity. They were sophistical too, perhaps, in asserting that the high price of exchange necessarily increased, what they called, the unfavorable balance of trade, or occasioned the exportation of a greater quantity of gold and silver. That high price, indeed, was extremely disadvantageous to the merchants who had any money to pay in foreign countries. They paid so much dearer for the bills which their bankers granted them upon those countries. But though the risk arising from the prohibition might occasion some extraordinary expense to the bankers, it would not necessarily carry any more money out of the country. This expense would generally be all laid out in the country, in smuggling the money out of it, and could seldom occasion



the exportation of a single six-pence beyond the precise sum drawn for. The high price of exchange too would naturally dispose the merchants to endeavour to make their exports nearly balance their imports, in order that they might have this high exchange to pay upon as small a sum as possible. The high price of exchange, besides, must necessarily have operated as a tax, in raising the price of foreign goods, and thereby diminishing their consumption. It would tend, therefore, not to increase, but to diminish, what they called, the unfavorable balance of trade, and consequently the exportation of gold and silver.

Such as they were, however, those arguments convinced the people to whom they were addressed. They were addressed by merchants to parliaments, and to the councils of princes, to nobles, and to country gentlemen; by those who were supposed to understand trade, to those who were conscious to themselves that they knew nothing about the matter. That foreign trade enriched the country, experience demonstrated to the nobles and country gentlemen, as well as to the merchants; but how, or in what manner, none of them well knew. The merchants knew perfectly in what manner it enriched themselves. It was their business to know it. But to know in what manner it enriched the country, was no part of their business. This subject never came into their consideration, but when they had occasion to apply to their country for some change in the laws relating to foreign trade. It then became



necessary to say something about the beneficial effects of foreign trade, and the manner in which those effects were obstructed by the laws as they then stood. To the judges who were to decide the business, it appeared a most satisfactory account of the matter, when they were told that foreign trade brought money into the country, but that the laws in question hindered it from bringing so much as it otherwise would do. Those arguments therefore produced the wished-for effect. The prohibition of exporting gold and silver was in France and England confined to the coin of those respective countries. The exportation of foreign coin and of bullion was made free. In Holland, and in some other places, this liberty was extended even to the coin of the country. The attention of government was turned away from guarding against the exportation of gold and silver, to watch over the balance of trade, as the only cause which could occasion any augmentation or diminution of those metals. From one fruitless care it was turned away to another care much more intricate, much more embarrassing, and just equally fruitless. The title of Mun's book, *England's Treasure in Foreign Trade*, became a fundamental maxim in the political œconomy, not of England only, but of all other commercial countries. The inland or home trade, the most important of all, the trade in which an equal capital affords the greatest revenue, and creates the greatest employment to the people of the country, was considered as subsidiary only to foreign trade. It



neither brought money into the country, it was said, nor carried any out of it. The country therefore could never become either richer or poorer by means of it, except so far as its prosperity or decay might indirectly influence the state of foreign trade.

A country that has no mines of its own must undoubtedly draw its gold and silver from foreign countries, in the same manner as one that has no vineyards of its own must draw its wines. It does not seem necessary, however, that the attention of government should be more turned towards the one than towards the other object. A country that has wherewithal to buy wine, will always get the wine which it has occasion for; and a country that has wherewithal to buy gold and silver, will never be in want of those metals. They are to be bought for a certain price like all other commodities, and as they are the price of all other commodities, so all other commodities are the price of those metals. We trust with perfect security that the freedom of trade, without any attention of government, will always supply us with the wine which we have occasion for: and we may trust with equal security that it will always supply us with all the gold and silver which we can afford to purchase or to employ, either in circulating our commodities, or in other uses.

The quantity of every commodity which human industry can either purchase or produce, naturally regulates itself in every country according to the effectual demand, or according to the demand



demand of those who are willing to pay the whole rent, labor and profits which must be paid in order to prepare and bring it to market. But no commodities regulate themselves more easily or more exactly according to this effectual demand than gold and silver; because, on account of the small bulk and great value of those metals, no commodities can be more easily transported from one place to another, from the places where they are cheap, to those where they are dear, from the places where they exceed, to those where they fall short of this effectual demand. If there were in England, for example, an effectual demand for an additional quantity of gold, a packet-boat could bring from Lisbon, or from wherever else it was to be had, fifty tuns of gold, which could be coined into more than five millions of guineas. But if there were an effectual demand for grain to the same value, to import it would require, at five guineas a tun, a million of tuns of shipping, or a thousand ships of a thousand tuns each. The navy of England would not be sufficient,

When the quantity of gold and silver imported into any country exceeds the effectual demand, no vigilance of government can prevent their exportation. All the sanguinary laws of Spain and Portugal are not able to keep their gold and silver at home. The continual importations from Peru and Brazil exceed the effectual demand of those countries, and sink the price of those metals there below that in the neighbouring countries. If, on the contrary, in any particular country their



quantity fell short of the effectual demand, so as to raise their price above that of the neighbouring countries, the government would have no occasion to take any pains to import them. If it were even to take pains to prevent their importation, it would not be able to effectuate it. Those metals, when the Spartans had got wherewithal to purchase them, broke through all the barriers which the laws of Lycurgus opposed to their entrance into Lacedemon. All the sanguinary laws of the customs are not able to prevent the importation of the teas of the Dutch and Gottenburgh East India companies; because somewhat cheaper than those of the British company. A pound of tea, however, is about a hundred times the bulk of one of the highest prices, sixteen shillings, that is commonly paid for it in silver, and more than two thousand times the bulk of the same price in gold, and consequently just so many times more difficult to smuggle.

It is partly owing to the easy transportation of gold and silver from the places where they abound to those where they are wanted, that the price of those metals does not fluctuate continually like that of the greater part of other commodities, which are hindered by their bulk from shifting their situation, when the market happens to be either over or under-stocked with them. The price of those metals, indeed, is not altogether exempted from variation, but the changes to which it is liable are generally slow, gradual, and uniform. In Europe, for example, it is supposed, without



much foundation, perhaps, that, during the course of the present and preceding century, they have been constantly, but gradually, sinking in their value, on account of the continual importations from the Spanish West Indies. But to make any sudden change in the price of gold and silver, so as to raise or lower at once, sensibly and remarkably, the money price of all other commodities, requires such a revolution in commerce as that occasioned by the discovery of America.

If, notwithstanding all this, gold and silver should at any time fall short in a country which has wherewithal to purchase them, there are more expedients for supplying their place, than that of almost any other commodity. If the materials of manufacture are wanted, industry must stop. If provisions are wanted, the people must starve. But if money is wanted, barter will supply its place, though with a good deal of inconveniency. Buying and selling upon credit, and the different dealers compensating their credits with one another once a month or twice a year, will supply it with less inconveniency. A well-regulated paper money will supply it, not only without any inconveniency, but, in some cases, with some advantages. Upon every account, therefore, the attention of government never was so unnecessarily employed, as when directed to watch over the preservation or increase of the quantity of money in any country.

No complaint, however, is more common than that of a scarcity of money. Money, like wine,



must always be scarce with those who have neither wherewithal to buy it, nor credit to borrow it. Those who have either, will seldom be in want either of the money, or of the wine which they have occasion for. This complaint, however, of the scarcity of money, is not always confined to improvident spendthrifts. It is sometimes general through a whole mercantile town, and the country in its neighbourhood. Over-trading is the common cause of it. Sober men, whose projects have been disproportioned to their capitals, are as likely to have neither wherewithal to buy money, nor credit to borrow it, as prodigals whose expense has been disproportioned to their revenue. Before their projects can be brought to bear, their stock is gone, and their credit with it. They run about every-where to borrow money, and every body tells them that they have none to lend. Even such general complaints of the scarcity of money do not always prove that the usual number of gold and silver pieces are not circulating in the country, but that many people want those pieces who have nothing to give for them. When the profits of trade happen to be greater than ordinary, over-trading becomes a general error both among great and small dealers. They do not always send more money abroad than usual, but they buy upon credit both at home and abroad, an unusual quantity of goods, which they send to some distant market, in hopes that the returns will come in before the demand for payment. The demand comes before the returns, and they have nothing



at hand, with which they can either purchase money, or give solid security for borrowing. It is not any scarcity of gold and silver, but the difficulty which such people find in borrowing, and which their creditors find in getting payment, that occasions the general complaint of the scarcity of money.

It would be too ridiculous to go about seriously to prove, that wealth does not consist in money, or in gold and silver; but in what money purchases, and is valuable only for purchasing. Money, no doubt, makes always a part of the national capital, but it has already been shown that it generally makes but a small part, and always the most unprofitable part of it.

It is not because wealth consists more essentially in money than in goods, that the merchant finds it generally more easy to buy goods with money, than to buy money with goods; but because money is the known and established instrument of commerce, for which every thing is readily given in exchange, but which is not always with equal readiness to be got in exchange for every thing. The greater part of goods besides are more perishable than money, and he may frequently sustain a much greater loss by keeping them. When his goods are upon hand too, he is more liable to such demands for money as he may not be able to answer, than when he has got their price in his coffers. Over and above all this, his profit arises more directly from selling than from buying, and he is upon all these accounts generally much more anxious to exchange his goods for money,



than his money for goods. But though a particular merchant, with abundance of goods in his warehouse, may sometimes be ruined by not being able to sell them in time, a nation or country is not liable to the same accident. The whole capital of a merchant frequently consists in perishable goods destined for purchasing money. But it is but a very small part of the annual produce of the land and labor of a country which can ever be destined for purchasing gold and silver from their neighbours. The far greater part is circulated and consumed among themselves; and even of the surplus which is sent abroad, the greater part is generally destined for the purchase of other foreign goods. Though gold and silver, therefore, could not be had in exchange for the goods destined to purchase them, the nation would not be ruined. It might, indeed, suffer some loss and inconveniency, and be forced upon some of those expedients which are necessary for supplying the place of money. The annual produce of its land and labor, however, would be the same, or very nearly the same, as usual, because the same, or very nearly the same consumable capital would be employed in maintaining it. And though goods do not always draw money so readily as money draws goods, in the long run they draw it more necessarily than even it draws them. Goods can serve many other purposes besides purchasing money, but money can serve no other purpose besides purchasing goods. Money, therefore, necessarily runs after goods, but goods do not always or necessarily run after money. The man who buys, does not always mean to sell again but fre-



quently to use or to consume; whereas he who sells, always means to buy again. The one may frequently have done the whole, but the other can never have done more than one-half of his business. It is not for its own sake that men desire money, but for the sake of what they can purchase with it

Consumable commodities, it is said, are soon destroyed; whereas gold and silver are of a more durable nature, and, were it not for this continual exportation, might be accumulated for ages together, to the incredible augmentation of the real wealth of the country. Nothing, therefore, it is pretended, can be more disadvantageous to any country, than the trade which consists in the exchange of such lasting for such perishable commodities. We do not, however, reckon that trade disadvantageous which consists in the exchange of the hard-ware of England for the wines of France; and yet hard-ware is a very durable commodity, and were it not for this continual exportation, might too be accumulated for ages together, to the incredible augmentation of the pots and pans of the country. But it readily occurs that the number of such utensils is in every country necessarily limited by the use which there is for them; that it would be absurd to have more pots and pans than were necessary for cooking the victuals usually consumed there; and that if the quantity of victuals were to increase, the number of pots and pans would readily increase along with it, a part of the increased quantity of victuals being employed in purchasing them, or in maintaining an additional



number of workmen whose business it was to make them. It should as readily occur that the quantity of gold and silver is in every country limited by the use which there is for those metals; that their use consists in circulating commodities as coin, and in affording a species of household furniture as plate; that the quantity of coin in every country is regulated by the value of the commodities which are to be circulated by it: increase that value, and immediately a part of it will be sent abroad to purchase, wherever it is to be had, the additional quantity of coin requisite for circulating them: that the quantity of plate is regulated by the number and wealth of those private families who chuse to indulge themselves in that sort of magnificence: increase the number and wealth of such families, and a part of this increased wealth will most probably be employed in purchasing, wherever it is to be found, an additional quantity of plate: that to attempt to increase the wealth of any country, either by introducing or by detaining in it an unnecessary quantity of gold and silver, is as absurd as it would be to attempt to increase the good cheer of private families, by obliging them to keep an unnecessary number of kitchen utensils. As the expense of purchasing those unnecessary utensils would diminish instead of increasing either the quantity or goodness of the family provisions; so the expense of purchasing an unnecessary quantity of gold and silver must, in every country, as necessarily diminish the wealth which feeds, clothes, and



lodges, which maintains and employs the people. Gold and silver, whether in the shape of coin or of plate, are utensils, it must be remembered, as much as the furniture of the kitchen. Increase the use for them, increase the consumable commodities which are to be circulated, managed, and prepared by means of them, and you will infallibly increase the quantity; but if you attempt, by extraordinary means, to increase the quantity, you will as infallibly diminish the use and even the quantity too, which in those metals can never be greater than what the use requires. Were they ever to be accumulated beyond this quantity, their transportation is so easy, and the loss which attends their lying idle and unemployed so great, that no law could prevent their being immediately sent out of the country.

It is not always necessary to accumulate gold and silver, in order to enable a country to carry on foreign wars, and to maintain fleets and armies in distant countries. Fleets and armies are maintained, not with gold and silver, but with consumable goods. The nation which, from the annual produce of its domestic industry, from the annual revenue arising out of its lands, labor, and consumable stock, has wherewithal to purchase those consumable goods in distant countries, can maintain foreign wars there.

A nation may purchase the pay and provisions of an army in a distant country three different ways; by sending abroad either, first, some part of its accumulated gold and silver; or secondly,



some part of the annual produce of its manufactures; or last of all, some part of its annual rude produce.

The gold and silver which can properly be considered as accumulated or stored up in any country, may be distinguished into three parts; first, the circulating money; secondly, the plate of private families; and last of all, the money which may have been collected by many years parsimony, and laid up in the treasury of the prince.

It can seldom happen that much can be spared from the circulating money of the country; because in that there can seldom be much redundancy. The value of goods annually bought and sold in any country requires a certain quantity of money to circulate and distribute them to their proper consumers, and can give employment to no more. The channel of circulation necessarily draws to itself a sum sufficient to fill it, and never admits any more. Something, however, is generally withdrawn from this channel in the case of foreign war. By the great number of people who are maintained abroad, fewer are maintained at home. Fewer goods are circulated there, and less money becomes necessary to circulate them. An extraordinary quantity of paper money, of some sort or other too, such as exchequer notes, navy bills, and bank bills in England, is generally issued upon such occasions, and by supplying the place of circulating gold and silver, gives an opportunity of sending a greater quantity of it abroad. All



this, however, could afford but a poor resource for maintaining a foreign war, of great expense and several years duration.

The melting down the plate of private families, has upon every occasion been found a still more insignificant one. The French, in the beginning of the last war, did not derive so much advantage from this expedient as to compensate the loss of the fashion.

The accumulated treasures of the prince have, in former times, afforded a much greater and more lasting resource. In the present times, if you except the king of Prussia, to accumulate treasure seems to be no part of the policy of European princes.

The funds which maintained the foreign wars of the present century, the most expensive perhaps which history records, seem to have had little dependency upon the exportation either of the circulating money, or of the plate of private families, or of the treasure of the prince. The last French war cost Great Britain upwards of ninety millions, including not only the seventy-five millions of new debt that was contracted, but the additional two shillings in the pound land tax, and what was annually borrowed of the sinking fund. More than two-thirds of this expense were laid out in distant countries; in Germany, Portugal, America; in the ports of the Mediterranean, in the East and West Indies. The kings of England had no accumulated treasure. We never heard of any extraordinary quantity of plate being melted down. The circulating gold



and silver of the country had not been supposed to exceed eighteen millions. Since the late recoinage of the gold, however, it is believed to have been a good deal under-rated. Let us suppose, therefore, according to the most exaggerated computation which I remember to have either seen or heard of, that, gold and silver together, it amounted to thirty millions. Had the war been carried on, by means of our money, the whole of it must, even according to this computation, have been sent out and returned again at least twice, in a period of between six and seven years. Should this be supposed, it would afford the most decisive argument to demonstrate how unnecessary it is for government to watch over the preservation of money, since upon this supposition the whole money of the country must have gone from it and returned to it again, two different times in so short a period, without any body's knowing any thing of the matter. The channel of circulation, however, never appeared more empty than usual during any part of this period. Few people wanted money who had wherewithal to pay for it. The profits of foreign trade, indeed, were greater than usual during the whole war, but especially towards the end of it. This occasioned, what it always occasions, a general over-trading in all the ports of Great Britain; and this again occasioned the usual complaint of the scarcity of money, which always follows over-trading. Many people wanted it, who had neither wherewithal to buy it, nor credit to borrow it; and because the debtors



found it difficult to borrow, the creditors found it difficult to get payment. Gold and silver, however, were generally to be had for their value, by those who had that value to give for them.

The enormous expense of the late war, therefore, must have been chiefly defrayed, not by the exportation of gold and silver, but by that of British commodities of some kind or other. When the government, or those who acted under them, contracted with a merchant for a remittance to some foreign country, he would naturally endeavour to pay his foreign correspondent, upon whom he had granted a bill, by sending abroad rather commodities than gold and silver. If the commodities of Great Britain were not in demand in that country, he would endeavour to send them to some other country, in which he could purchase a bill upon that country. The transportation of commodities, when properly suited to the market, is always attended with a considerable profit; whereas that of gold and silver is scarce ever attended with any. When those metals are sent abroad in order to purchase foreign commodities, the merchant's profit arises, not from the purchase, but from the sale of the returns. But when they are sent abroad merely to pay a debt, he gets no returns, and consequently no profit. He naturally, therefore, exerts his invention to find out a way of paying his foreign debts, rather by the exportation of commodities than by that of gold and silver. The great quantity of British goods exported



during the course of the late war, without bringing back any returns, is accordingly remarked by the author of *The Present State of the Nation*.

Besides the three sorts of gold and silver above-mentioned, there is in all great commercial countries a good deal of bullion alternately imported and exported for the purposes of foreign trade. This bullion, as it circulates among different commercial countries in the same manner as the national coin circulates in every particular country, may be considered as the money of the great mercantile republic. The national coin receives its movement and direction from the commodities circulated within the precincts of each particular country: the money of the mercantile republic, from those circulated between different countries. Both are employed in facilitating exchanges, the one between different individuals of the same, the other between those of different nations. Part of this money of the great mercantile republic may have been, and probably was, employed in carrying on the late war. In time of a general war, it is natural to suppose that a movement and direction should be impressed upon it, different from what it usually follows in profound peace; that it should circulate more about the seat of the war, and be more employed in purchasing there, and in the neighbouring countries, the pay and provisions of the different armies. But whatever part of this money of the mercantile republic, Great Britain may have annually employed in this



manner, it must have been annually purchased, either with British commodities, or with something else that had been purchased with them; which still brings us back to commodities, to the annual produce of the land and labor of the country, as the ultimate resources which enabled us to carry on the war. It is natural indeed to suppose, that so great an annual expense must have been defrayed from a great annual produce. The expense of 1761, for example, amounted to more than nineteen millions. No accumulation could have supported so great an annual profusion. There is no annual produce even of gold and silver which could have supported it. The whole gold and silver annually imported into both Spain and Portugal, according to the best accounts, does not commonly much exceed six millions sterling, which, in some years, would scarce have paid four months expense of the late war.

The commodities most proper for being transported to distant countries, in order to purchase there, either the pay and provisions of an army, or some part of the money of the mercantile republic to be employed in purchasing them, seem to be the finer and more improved manufactures; such as contain a great value in a small bulk, and can, therefore, be exported to a great distance at little expense. A country whose industry produces a great annual surplus of such manufactures, which are usually exported to foreign countries, may carry on for many years a very expensive foreign war, without either exporting any



considerable quantity of gold and silver, or even having any such quantity to export. A considerable part of the annual surplus of its manufactures must, indeed, in this case be exported, without bringing back any returns to the country, though it does to the merchant; the government purchasing of the merchant his bills upon foreign countries, in order to purchase there the pay and provisions of an army. Some part of this surplus, however, may still continue to bring back a return. The manufacturers, during the war, will have a double demand upon them, and be called upon, first, to work up goods to be sent abroad, for paying the bills drawn upon foreign countries for the pay and provisions of the army; and, secondly, to work up such as are necessary for purchasing the common returns that had usually been consumed in the country. In the midst of the most destructive foreign war, therefore, the greater part of manufactures may frequently flourish greatly; and, on the contrary, they may decline on the return of the peace. They may flourish amidst the ruin of their country, and begin to decay upon the return of its prosperity. The different state of many different branches of the British manufactures during the late war, and for some time after the peace, may serve as an illustration of what has been just now said.

No foreign war of great expense or duration could conveniently be carried on by the exportation of the rude produce of the soil. The expense of sending such a quantity of it to a foreign



foreign country as might purchase the pay and provisions of an army, would be too great. Few countries too produce much more rude produce than what is sufficient for the subsistence of their own inhabitants. To send abroad any great quantity of it, therefore, would be to send abroad a part of the necessary subsistence of the people. It is otherwise with the exportation of manufactures. The maintenance of the people employed in them is kept at home, and only the surplus part of their work is exported. Mr. Hume frequently takes notice of the inability of the ancient kings of England to carry on, without interruption, any foreign war of long duration. The English, in those days, had nothing wherewithal to purchase the pay and provisions of their armies in foreign countries, but either the rude produce of their soil, of which no considerable part could be spared from the home consumption, or a few manufactures of the coarsest kind, of which, as well as of the rude produce, the transportation was too expensive. This inability did not arise from the want of money, but of the finer and more improved manufactures. Buying and selling was transacted by means of money in England then, as well as now. The quantity of circulating money must have borne the same proportion to the number and value of purchases and sales usually transacted at that time, which it does to those transacted at present; or rather it must have borne a greater proportion because there was then no paper, which now occupies a great part of the employment of gold



and silver. Among nations to whom commerce and manufactures are little known, the sovereign, upon extraordinary occasions, can seldom draw, any considerable aid from his subjects, for reasons which shall be explained hereafter. It is in such countries, therefore, that he generally endeavours to accumulate a treasure, as the only resource against such emergencies. Independent of this necessity, he is in such a situation naturally disposed to the parsimony requisite for accumulation. In that simple state, the expense even of a sovereign is not directed by the vanity which delights in the gaudy finery of a court, but is employed in bounty to his tenants, and hospitality to his retainers. But bounty and hospitality very seldom lead to extravagance; though vanity almost always does. Every Tartar chief accordingly, has a treasure. The treasures of Mazepa, chief of the Cossacs in the Ukraine, the famous ally of Charles the XIIth, are said to have been very great. The French kings of the Merovingian race had all treasures. When they divided their kingdom among their different children, they divided their treasure too. The Saxon princes, and the first kings after the conquest, seem likewise to have accumulated treasures. The first exploit of every new reign was commonly to seize the treasure of the preceding king, as the most essential measure for securing the succession. The sovereigns of improved and commercial countries are not under the same necessity of accumulating treasures, because they can generally draw from their subjects extraordinary



aids upon extraordinary occasions. They are likewise less disposed to do so. They naturally, perhaps necessarily, follow the mode of the times, and their expense comes to be regulated by the same extravagant vanity which directs that of all the other great proprietors in their dominions. The insignificant pageantry of their court becomes every day more brilliant, and the expense of it not only prevents accumulation, but frequently encroaches upon the funds destined for more necessary expenses. What Dercyllidas said of the court of Persia, may be applied to that of several European princes, that he saw there much splendor but little strength, and many servants but few soldiers.

The importation of gold and silver is not the principal, much less the sole benefit which a nation derives from its foreign trade. Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries out that surplus part of the produce of their land and labor for which there is no demand among them, and brings back in return for it something else for which there is a demand. It gives a value to their superfluities, by exchanging them for something else, which may satisfy a part of their wants, and increase their enjoyments. By means of it, the narrowness of the home market does not hinder the division of labor in any particular branch of art or manufacture from being carried to the highest perfection. By opening a more extensive market for whatever part of the produce of their labor



may exceed the home consumption, it encourages them to improve its productive powers and to augment its annual produce to the utmost, and thereby to increase the real revenue and wealth of the society. These great and important services foreign trade is continually occupied in performing, to all the different countries between which it is carried on. They all derive great benefit from it, though that in which the merchant resides generally derives the greatest, as he is generally more employed in supplying the wants, and carrying out the superfluities of his own, than of any other particular country. To import the gold and silver which may be wanted, into the countries which have no mines, is, no doubt, a part of the business of foreign commerce. It is, however, a most insignificant part of it. A country which carried on foreign trade merely upon this account, could scarce have occasion to freight a ship in a century.

It is not by the importation of gold and silver, that the discovery of America has enriched Europe. By the abundance of the American mines, those metals have become cheaper. A service of plate can now be purchased for about a third part of the corn, or a third part of the labor, which it would have cost in the fifteenth century. With the same annual expense of labor and commodities, Europe can annually purchase about three times the quantity of plate which it could have purchased at that time. But when a commodity comes to be sold for a third part of what had been its usual price, not



only those who purchased it before can purchase three times their former quantity, but it is brought down to the level of a much greater number of purchasers, perhaps to more than ten, perhaps to more than twenty times the former number. So that there may be in Europe at present not only more than three times, but more than twenty or thirty times the quantity of plate which would have been in it, even in its present state of improvement, had the discovery of the American mines never been made. So far Europe has, no doubt, gained a real conveniency, though surely a very trifling one. The cheapness of gold and silver renders those metals rather less fit for the purposes of money than they were before. In order to make the same purchases, we must load ourselves with a greater quantity of them, and carry about a shilling in our pocket where a groat would have done before. It is difficult to say which is most trifling, this inconveniency, or the opposite conveniency. Neither the one nor the other could have made any very essential change in the state of Europe. The discovery of America, however, certainly made a most essential one. By opening a new and inexhaustible market to all the commodities of Europe, it gave occasion to new divisions of labor and improvements of art, which, in the narrow circle of the ancient commerce, could never have taken place for want of a market to take off the greater part of their produce. The productive powers of labor were improved, and its produce increased in all the different countries



of Europe , and together with it the real revenue and wealth of the inhabitants. The commodities of Europe were almost all new to America , and many of those of America were new to Europe. A new set of exchanges , therefore , began to take place which had never been thought of before , and which should naturally have proved as advantageous to the new , as it certainly did to the old continent. The savage injustice of the Europeans rendered an event , which ought to have been beneficial to all , ruinous and destructive to several of those unfortunate countries.

The discovery of a passage to the East Indies , by the Cape of Good Hope , which happened much about the same time , opened , perhaps , a still more extensive range to foreign commerce than even that of America , notwithstanding the greater distance. There were but two nations in America , in any respect superior to savages , and these were destroyed almost as soon as discovered. The rest were mere savages. But the empires of China , Indostan , Japan , as well as several others in the East Indies , without having richer mines of gold or silver , were in every other respect much richer , better cultivated , and more advanced in all arts and manufactures than either Mexico or Peru , even though we should credit , what plainly deserves no credit , the exaggerated accounts of the Spanish writers , concerning the ancient state of those empires. But rich and civilized nations can always exchange to a much greater value with one another , than



with savages and barbarians. Europe, however, has hitherto derived much less advantage from its commerce with the East Indies, than from that with America. The Portuguese monopolized the East India trade to themselves for about a century, and it was only indirectly and through them, that the other nations of Europe could either send out or receive any goods from that country. When the Dutch, in the beginning of the last century, began to encroach upon them, they vested their whole East India commerce in an exclusive company. The English, French, Swedes, and Danes, have all followed their example, so that no great nation in Europe has ever yet had the benefit of a free commerce to the East Indies. No other reason need be assigned why it has never been so advantageous as the trade to America, which, between almost every nation of Europe and its own colonies, is free to all its subjects. The exclusive privileges of those East India companies, their great riches, the great favor and protection which these have procured them from their respective governments, have excited much envy against them. This envy has frequently represented their trade as altogether pernicious, on account of the great quantities of silver, which it every year exports from the countries from which it is carried on. The parties concerned have replied, that their trade, by this continual exportation of silver, might, indeed, tend to impoverish Europe in general, but not the particular country from which it was carried on; because, by the exportation



of a part of the returns to other European countries, it annually brought home a much greater quantity of that metal than it carried out. Both the objection and the reply are founded in the popular notion which I have been just now examining. It is, therefore, unnecessary to say any thing further about either. By the annual exportation of silver to the East Indies, plate is probably somewhat dearer in Europe than it otherwise might have been; and coined silver probably purchases a larger quantity both of labor and commodities. The former of these two effects is a very small loss, the latter a very small advantage; both too insignificant to deserve any part of the public attention. The trade to the East Indies, by opening a market to the commodities of Europe, or, what comes nearly to the same thing, to the gold and silver which is purchased with those commodities, must necessarily tend to increase the annual production of European commodities, and consequently the real wealth and revenue of Europe. That it has hitherto increased them so little, is probably owing to the restraints which it everywhere labors under.

I thought it necessary, though at the hazard of being tedious, to examine at full length this popular notion that wealth consists in money, or in gold and silver. Money in common language, as I have already observed, frequently signifies wealth; and this ambiguity of expression has rendered this popular notion so familiar to us, that even they, who are convinced of its



absurdity, are very apt to forget their own principles, and in the course of their reasonings to take it for granted as a certain and undeniable truth. Some of the best English writers upon commerce set out with observing, that the wealth of a country consists, not in its gold and silver only, but in its lands, houses, and consumable goods of all different kinds. In the course of their reasonings, however, the lands, houses, and consumable goods seem to slip out of their memory, and the strain of their argument frequently supposes that all wealth consists in gold and silver, and that to multiply those metals is the great object of national industry and commerce.

The two principles being established, however, that wealth consisted in gold and silver, and that those metals could be brought into a country which had no mines only by the balance of trade, or by exporting to a greater value than it imported; it necessarily became the great object of political œconomy to diminish as much as possible the importation of foreign goods for home-consumption, and to increase as much as possible the exportation of produce of domestic industry. Its two great engines for enriching the country, therefore, were restraints upon importation, and encouragements to exportation.

The restraints upon importation were of two kinds.

First, Restraints upon the importation of such foreign goods for home-consumption as



could be produced at home, from whatever country they were imported.

Secondly, Restraints upon the importation of goods of almost all kinds from those particular countries with which the balance of trade was supposed to be disadvantageous.

Those different restraints consisted sometimes in high duties, and sometimes in absolute prohibitions.

Exportation was encouraged sometimes by drawbacks, sometimes by bounties, sometimes by advantageous treaties of commerce with foreign states, and sometimes by the establishment of colonies in distant countries.

Drawbacks were given upon two different occasions. When the home-manufactures were subject to any duty or excise, either the whole or a part of it was frequently drawn back upon their exportation; and when foreign goods liable to a duty were imported in order to be exported again, either the whole or a part of this duty was sometimes given back upon such exportation.

Bounties were given for the encouragement either of some beginning manufactures, or of such sorts of industry of other kinds as were supposed to deserve particular favor.

By advantageous treaties of commerce, particular privileges were procured in some foreign state for the goods and merchants of the country, beyond what were granted to those of other countries.



By the establishment of colonies in distant countries, not only particular privileges, but a monopoly was frequently procured for the goods and merchants of the country which established them.

The two sorts of restraints upon importation above-mentioned, together with these four encouragements to exportation, constitute the six principal means by which the commercial system proposes to increase the quantity of gold and silver in any country by turning the balance of trade in its favor. I shall consider each of them in a particular chapter, and without taking much further notice of their supposed tendency to bring money into the country, I shall examine chiefly what are likely to be the effects of each of them upon the annual produce of its industry. According as they tend either to increase or diminish the value of this annual produce, they must evidently tend either to increase or diminish the real wealth and revenue of the country.



## C H A P. II.

*Of Restraints upon the Importation from foreign Countries of such Goods as can be produced at Home.*

**B**Y restraining, either by high duties, or by absolute prohibitions, the importation of such goods from foreign countries as can be produced at home, the monopoly of the home-market is more or less secured to the domestic industry employed in producing them. Thus the prohibition of importing either live cattle or salt provisions from foreign countries secures to the graziers of Great Britain the monopoly of the home-market for butcher's-meat. The high duties upon the importation of corn, which in times of moderate plenty amount to a prohibition, give a like advantage to the growers of that commodity. The prohibition of the importation of foreign woollens is equally favorable to the woollen manufacturers. The silk manufacture, though altogether employed upon foreign materials, has lately obtained the same advantage. The linen manufacture has not yet obtained it, but is making great strides towards it. Many other sorts of manufacturers have, in the same manner, obtained in Great Britain, either altogether, or very nearly a monopoly against their countrymen. The variety of goods of which the importation into Great Britain is prohibited,



either absolutely, or under certain circumstances, greatly exceeds what can easily be suspected by those who are not well acquainted with the laws of the customs.

That this monopoly of the home-market frequently gives great encouragement to that particular species of industry which enjoys it, and frequently turns towards that employment a greater share of both the labor and stock of the society than would otherwise have gone to it, cannot be doubted. But whether it tends either to increase the general industry of the society, or to give it the most advantageous direction, is not, perhaps, altogether so evident.

The general industry of the society never can exceed what the capital of the society can employ. As the number of workmen that can be kept in employment by any particular person must bear a certain proportion to his capital, so the number of those that can be continually employed by all the members of a great society, must bear a certain proportion to the whole capital of that society, and never can exceed that proportion. No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a direction into which it might not otherwise have gone; and it is by no means certain that this artificial direction is likely to be more advantageous to the society than that into which it would have gone of its own accord.

Every individual is continually exerting himself



to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society.

First, every individual endeavours to employ his capital as near home as he can, and consequently as much as he can in the support of domestic industry; provided always that he can thereby obtain the ordinary, or not a great deal less than the ordinary profits of stock.

Thus, upon equal or nearly equal profits, every wholesale merchant naturally prefers the home-trade to the foreign trade of consumption, and the foreign trade of consumption, to the carrying trade. In the home-trade his capital is never so long out of his sight as it frequently is in the foreign trade of consumption. He can know better the character and situation of the persons whom he trusts, and if he should happen to be deceived, he knows better the laws of the country from which he must seek redress. In the carrying trade, the capital of the merchant is, as it were, divided between two foreign countries, and no part of it is ever necessarily brought home, or placed under his own immediate view and command. The capital which an Amsterdam merchant employs in carrying corn from Konnigsberg to Lisbon, and fruit and wine from Lisbon to Konnigsberg, must generally be the one-half of it at Konnigsberg and the other



half at Lisbon. No part of it need ever come to Amsterdam. The natural residence of such a merchant should either be at Konnigsberg or Lisbon, and it can only be some very particular circumstances which can make him prefer the residence of Amsterdam. The uneasiness, however, which he feels at being separated so far from his capital, generally determines him to bring part both of the Konnigsberg goods which he destines for the market of Lisbon; and of the Lisbon goods which he destines for that of Konnigsberg, to Amsterdam: and though this necessarily subjects him to a double charge of loading and unloading, as well as to the payment of some duties and customs, yet for the sake of having some part of his capital always under his own view and command, he willingly submits to this extraordinary charge; and it is in this manner that every country which has any considerable share of the carrying trade, becomes always the emporium, or general market, for the goods of all the different countries whose trade it carries on. The merchant, in order to save a second loading and unloading, endeavours always to sell in the home-market as much of the goods of all those different countries as he can, and thus, so far as he can, to convert his carrying trade into a foreign trade of consumption. A merchant, in the same manner, who is engaged in the foreign trade of consumption, when he collects goods for foreign markets, will always be glad, upon equal or nearly equal profits, to sell as great a part of them at home as he can. He saves himself the risk and trouble of



exportation when, so far as he can, he thus converts his foreign trade of consumption into a home-trade. Home is in this manner the centre, if I may say so, round which the capitals of the inhabitants of every country are continually circulating, and towards which they are always tending, though by particular causes they may sometimes be driven off and repelled from it towards more distant employments. But a capital employed in the home-trade, it has already been shown, necessarily puts into motion a greater quantity of domestic industry, and gives revenue and employment to a greater number of the inhabitants of the country, than an equal capital employed in the foreign trade of consumption: and one employed in the trade of consumption has the same advantage over an equal capital employed in the carrying trade. Upon equal, or only nearly equal profits, therefore, every individual naturally inclines to employ his capital in the manner in which it is likely to afford the greatest support to domestic industry, and to give revenue and employment to the greatest number of people of his own country.

Secondly, every individual who employs his capital in the support of domestic industry, necessarily endeavours so to direct that industry, that its produce may be of the greatest possible value.

The produce of industry is what it adds to the subject or materials upon which it is employed. In proportion as the value of this produce is great or small, so will likewise be the profits of the employer. But it is only for the sake of profit  
that



that any man employs a capital in the support of industry; and he will always, therefore, endeavour to employ it in the support of that industry of which the produce is likely to be of the greatest value, or to exchange for the greatest quantity either of money or of other goods.

But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or rather is precisely the same thing with that exchangeable value. As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labors to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an



affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.

What is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him. The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would no-where be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

To give the monopoly of the home-market to the produce of domestic industry, in any particular art or manufacture, is in some measure to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation. If the produce of domestic can be brought there as cheap as that of foreign industry, the regulation is evidently useless. If it cannot, it must generally be hurtful. It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The taylor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to



make his own clothes, but employs a taylor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce, or what is the same thing, with the price of a part of it, whatever else they have occasion for.

What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. The general industry of the country, being always in proportion to the capital which employs it, will not thereby be diminished, no more than that of the above-mentioned artificers; but only left to find out the way in which it can be employed with the greatest advantage. It is certainly not employed to the greatest advantage, when it is thus directed towards an object which it can buy cheaper than it can make. The value of its annual produce is certainly more or less diminished, when it is thus turned away from producing commodities evidently of more value than the commodity which it is directed to produce. According to the supposition, that commodity could be purchased from foreign countries cheaper than it can be made at home. It could, therefore, have been purchased with a



part only of the commodities, or, what is the same thing, with a part only of the price of the commodities, which the industry employed by an equal capital would have produced at home, had it been left to follow its natural course. The industry of the country, therefore, is thus turned away from a more, to a less advantageous employment, and the exchangeable value of its annual produce, instead of being increased, according to the intention of the lawgiver, must necessarily be diminished by every such regulation.

By means of such regulations, indeed, a particular manufacture may sometimes be acquired sooner than it could have been otherwise, and after a certain time may be made at home as cheap or cheaper than in the foreign country. But though the industry of the society may be thus carried with advantage into a particular channel sooner than it could have been otherwise, it will by no means follow that the sum total, either of its industry, or of its revenue, can ever be augmented by any such regulation. The industry of the society can augment only in proportion as its capital augments, and its capital can augment only in proportion to what can be gradually saved out of its revenue. But the immediate effect of every such regulation is to diminish its revenue, and what diminishes its revenue is certainly not very likely to augment its capital faster than it would have augmented of its own accord, had both capital and industry been left to find out their natural employments.



Though for want of such regulations the society should never acquire the proposed manufacture, it would not, upon that account, necessarily be the poorer in any one period of its duration. In every period of its duration its whole capital and industry might still have been employed, though upon different objects, in the manner that was most advantageous at the time. In every period its revenue might have been the greatest which its capital could afford, and both capital and revenue might have been augmented with the greatest possible rapidity.

The natural advantages which one country has over another in producing particular commodities are sometimes so great, that it is acknowledged by all the world to be in vain to struggle with them. By means of glasses, hotbeds, and hot-walls, very good grapes can be raised in Scotland, and very good wine too can be made of them at about thirty times the expense for which at least equally good can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines, merely to encourage the making of claret and burgundy in Scotland? But if there would be a manifest absurdity in turning towards any employment, thirty times more of the capital and industry of the country, than would be necessary to purchase from foreign countries an equal quantity of the commodities wanted, there must be an absurdity, though not altogether so glaring, yet exactly of the same kind, in turning



towards any such employment a thirtieth, or even a three hundredth part more of either. Whether the advantages which one country has over another, be natural or acquired, is in this respect of no consequence. As long as the one country has those advantages, and the other wants them, it will always be more advantageous for the latter, rather to buy of the former than to make. It is an acquired advantage only, which one artificer has over his neighbour, who exercises another trade; and yet they both find it more advantageous to buy of one another, than to make what does not belong to their particular trades.

Merchants and manufacturers are the people who derive the greatest advantage from this monopoly of the home-market. The prohibition of the importation of foreign cattle, and of salt provisions, together with the high duties upon foreign corn, which in times of moderate plenty amount to a prohibition, are not near so advantageous to the graziers and farmers of Great Britain, as other regulations of the same kind are to its merchants and manufacturers. Manufactures, those of the finer kind especially, are more easily transported from one country to another than corn or cattle. It is in the fetching and carrying manufactures, accordingly, that foreign trade is chiefly employed. In manufactures, a very small advantage will enable foreigners to undersell our own workmen, even in the home market. It will require a very great one to enable them to do so in the rude produce



of the soil. If the free importation of foreign manufactures were permitted, several of the home manufactures would probably suffer, and some of them, perhaps, go to ruin altogether, and a considerable part of the stock and industry at present employed in them, would be forced to find out some other employment. But the freest importation of the rude produce of the soil could have no such effect upon the agriculture of the country.

If the importation of foreign cattle, for example, were made ever so free, so few could be imported, that the grazing trade of Great Britain could be little affected by it. Live cattle are, perhaps, the only commodity of which the transportation is more expensive by sea than by land. By land they carry themselves to market. By sea, not only the cattle, but their food and their water too, must be carried at no small expense and inconveniency. The short sea between Ireland and Great Britain, indeed, renders the importation of Irish cattle more easy. But though the free importation of them, which was lately permitted only for a limited time, were rendered perpetual, it could have no considerable effect upon the interest of the graziers of Great Britain. Those parts of Great Britain which border upon the Irish sea are all grazing counties. Irish cattle could never be imported for their use, but must be drove through those very extensive counties, at no small expense and inconveniency, before they could arrive at their proper market. Fat cattle could not be drove



so far. Lean cattle, therefore, only could be imported, and such importation could interfere, not with the interest of the feeding or fattening countries, to which, by reducing the price of lean cattle, it would rather be advantageous, but with that of the breeding countries only. The small number of Irish cattle imported since their importation was permitted, together with the good price at which lean cattle still continue to sell, seem to demonstrate that even the breeding countries of Great Britain are never likely to be much affected by the free importation of Irish cattle. The common people of Ireland, indeed, are said to have sometimes opposed with violence the exportation of their cattle. But if the exporters had found any great advantage in continuing the trade; they could easily, when the law was on their side, have conquered this mobbish opposition.

Feeding and fattening countries, besides, must always be highly improved, whereas breeding countries are generally uncultivated. The high price of lean cattle, by augmenting the value of uncultivated land, is like a bounty against improvement. To any country which was highly improved throughout, it would be more advantageous to import its lean cattle than to breed them. The province of Holland, accordingly, is said to follow this maxim at present. The mountains of Scotland, Wales, and Northumberland, indeed, are countries not capable of much improvement, and seem destined by nature to be the breeding countries of Great Britain.



The freest importation of foreign cattle could have no other effect than to hinder those breeding countries from taking advantage of the increasing population and improvement of the rest of the kingdom, from raising their price to an exorbitant height, and from laying a real tax upon all the more improved and cultivated parts of the country.

The freest importation of salt provisions, in the same manner, could have as little effect upon the interest of the graziers of Great Britain as that of live cattle. Salt provisions are not only a very bulky commodity, but when compared with fresh meat, they are a commodity both of worse quality, and as they cost more labor and expense, of higher price. They could never, therefore, come into competition with the fresh meat, though they might with the salt provisions of the country. They might be used for victualing ships for distant voyages, and such like uses, but could never make any considerable part of the food of the people. The small quantity of salt provisions imported from Ireland since their importation was rendered free, is an experimental proof that our graziers have nothing to apprehend from it. It does not appear that the price of butcher's-meat has ever been sensibly affected by it.

Even the free importation of foreign corn could very little affect the interest of the farmers of Great Britain. Corn is a much more bulky commodity than butcher's-meat. A pound of wheat at a penny is as dear as a pound of butcher's-meat at fourpence.



The small quantity of foreign corn imported even in times of the greatest scarcity, may satisfy our farmers that they can have nothing to fear from the freest importation. The average quantity imported, one year with another, amounts only, according to the very well informed author of the tracts upon the corn trade, to twenty-three-thousand seven hundred and twenty-eight quarters of all sorts of grain, and does not exceed the five hundredth and seventy-one part of the annual consumption. But as the bounty upon corn occasions a greater exportation in years of plenty, so it must of consequence occasion a greater importation in years of scarcity, than in the actual state of tillage would otherwise take place. By means of it, the plenty of one year does not compensate the scarcity of another, and as the average quantity exported is necessarily augmented by it, so must likewise, in the actual state of tillage, the average quantity imported. If there were no bounty, as less corn would be exported, so it is probable that, one year with another, less would be imported than at present. The corn merchants, the fetchers and carriers of corn between Great Britain and foreign countries, would have much less employment, and might suffer considerably; but the country gentlemen and farmers could suffer very little. It is in the corn merchants accordingly, rather than in the country gentlemen and farmers, that I have observed the greatest anxiety for the renewal and continuation of the bounty.



Country gentlemen and farmers are, to their great honor, of all people, the least subject to the wretched spirit of monopoly. The undertaker of a great manufactory is sometimes alarmed if another work of the same kind is established within twenty miles of him. The Dutch undertaker of the woollen manufacture at Abbeville stipulated, that no work of the same kind should be established within thirty leagues of that city. Farmers and country gentlemen, on the contrary, are generally disposed rather to promote than to obstruct the cultivation and improvement of their neighbours' farms and estates. They have no secrets, such as those of the greater part of manufacturers, but are generally rather fond of communicating to their neighbours, and of extending as far as possible any new practice which they have found to be advantageous. *Pius Questus*, says old Cato, *stabilissimusque, minimeque invidiosus; minimeque male cogitantes sunt, qui in eo studio occupati sunt.* Country gentlemen and farmers, dispersed in different parts of the country, cannot so easily combine as merchants and manufacturers, who being collected into towns, and accustomed to that exclusive corporation spirit which prevails in them, naturally endeavour to obtain against all their countrymen, the same exclusive privilege which they generally possess against the inhabitants of their respective towns. They accordingly seem to have been the original inventors of those restraints upon the importation of foreign goods, which secure to them the monopoly of the home-market. It was



probably in imitation of them, and to put themselves upon a level with those who, they found, were disposed to oppress them, that the country gentlemen and farmers of Great Britain so far forgot the generosity which is natural to their station, as to demand the exclusive privilege of supplying their countrymen with corn and butcher's-meat. They did not perhaps take time to consider, how much less their interest could be affected by the freedom of trade, than that of the people whose example they followed.

To prohibit by a perpetual law the importation of foreign corn and cattle, is in reality to enact, that the population and industry of the country shall at no time exceed what the rude produce of its own soil can maintain.

There seem, however, to be two cases in which it will generally be advantageous to lay some burden upon foreign, for the encouragement of domestic industry.

The first is, when some particular sort of industry is necessary for the defence of the country. The defence of Great Britain, for example, depends very much upon the number of its sailors and shipping. The act of navigation, therefore, very properly endeavours to give the sailors and shipping of Great Britain the monopoly of the trade of their own country, in some cases, by absolute prohibitions, and in others by heavy burdens upon the shipping of foreign countries. The following are the principal dispositions of this act.



First, all ships, of which the owners, masters, and three-fourths of the mariners are not British subjects, are prohibited, upon pain of forfeiting ship and cargo, from trading to the British settlements and plantations, or from being employed in the coasting trade of Great Britain.

Secondly, a great variety of the most bulky articles of importation can be brought into Great Britain only, either in such ships as are above described, or in ships of the country where those goods are produced, and of which the owners, masters, and three-fourths of the mariners, are of that particular country; and when imported even in ships of this latter kind, they are subject to double aliens' duty. If imported in ships of any other country, the penalty is forfeiture of ship and goods. When this act was made, the Dutch were, what they still are, the great carriers of Europe, and by this regulation they were entirely excluded from being the carriers to Great Britain, or from importing to us the goods of any other European country.

Thirdly, a great variety of the most bulky articles of importation are prohibited from being imported, even in British ships, from any country but that in which they are produced; under pain of forfeiting ship and cargo. This regulation too was probably intended against the Dutch. Holland was then, as now, the great emporium for all European goods, and by this regulation, British ships were hindered from



loading in Holland the goods of any other European country.

Fourthly, salt fish of all kinds, whale-fins, whale-bone, oil, and blubber, not caught by and cured on board British vessels, when imported into Great Britain, are subjected to double aliens' duty. The Dutch, as they are still the principal, were then the only fishers in Europe that attempted to supply foreign nations with fish. By this regulation, a very heavy burden was laid upon their supplying Great Britain.

When the act of navigation was made, though England and Holland were not actually at war, the most violent animosity subsisted between the two nations. It had begun during the government of the long parliament, which first framed this act, and it broke out soon after in the Dutch wars during that of the Protector and of Charles the Second. It is not impossible, therefore, that some of the regulations of this famous act may have proceeded from national animosity. They are as wise, however, as if they had all been dictated by the most deliberate wisdom. National animosity at that particular time aimed at the very same object which the most deliberate wisdom would have recommended, the diminution of the naval power of Holland, the only naval power which could endanger the security of England.

The act of navigation is not favorable to foreign commerce, or to the growth of that opulence which can arise from it. The interest of a nation in its commercial relations to foreign nations is,



like that of a merchant with regard to the different people with whom he deals, to buy as cheap and to sell as dear as possible. But it will be most likely to buy cheap, when by the most perfect freedom of trade it encourages all nations to bring to it the goods which it has occasion to purchase; and, for the same reason, it will be most likely to sell dear, when its markets are thus filled with the greatest number of buyers. The act of navigation, it is true, lays no burden upon foreign ships that come to export the produce of British industry. Even the ancient aliens' duty, which used to be paid upon all goods exported as well as imported, has, by several subsequent acts, been taken off from the greater part of the articles of exportation. But if foreigners, either by prohibitions or high duties, are hindered from coming to sell, they cannot always afford to come to buy; because coming without a cargo, they must lose the freight from their own country to Great Britain. By diminishing the number of sellers, therefore, we necessarily diminish that of buyers, and are thus likely not only to buy foreign goods dearer, but to sell our own cheaper, than if there was a more perfect freedom of trade. As defence, however, is of much more importance than opulence, the act of navigation is, perhaps, the wisest of all the commercial regulations of England.

The second case, in which it will generally be advantageous to lay some burden upon foreign for the encouragement of domestic industry, is, when some tax is imposed at home upon the produce



of the latter. In this case, it seems reasonable that an equal tax should be imposed upon the like produce of the former. This would not give the monopoly of the home market to domestic industry, nor turn towards a particular employment a greater share of the stock and labor of the country, than what would naturally go to it. It would only hinder any part of what would naturally go to it from being turned away by the tax, into a less natural direction, and would leave the competition between foreign and domestic industry, after the tax, as nearly as possible upon the same footing as before it. In Great Britain, when any such tax is laid upon the produce of domestic industry, it is usual at the same time, in order to stop the clamorous complaints of our merchants and manufacturers, that they will be underfold at home, to lay a much heavier duty upon the importation of all foreign goods of the same kind.

This second limitation of the freedom of trade according to some people should, upon some occasions, be extended much farther than to the precise foreign commodities which could come into competition with those which had been taxed at home. When the necessaries of life have been taxed in any country, it becomes proper, they pretend, to tax not only the like necessaries of life imported from other countries, but all sorts of foreign goods which can come into competition with any thing that is the produce of domestic industry. Subsistence, they say, becomes necessarily dearer in consequence  
of



of such taxes; and the price of labor must always rise with the price of the laborers' subsistence. Every commodity, therefore, which is the produce of domestic industry, though not immediately taxed itself, becomes dearer in consequence of such taxes, because the labor which produces it becomes so. Such taxes, therefore, are really equivalent, they say, to a tax upon every particular commodity produced at home. In order to put domestic upon the same footing with foreign industry, therefore, it becomes necessary, they think, to lay some duty upon every foreign commodity, equal to this enhancement of the price of the home commodities with which it can come into competition.

Whether taxes upon the necessaries of life, such as those in Great Britain upon soap, salt, leather, candles. &c. necessarily raise the price of labor, and consequently that of all other commodities, I shall consider hereafter, when I come to treat of taxes. Supposing, however, in the mean time, that they have this effect, and they have it undoubtedly, this general enhancement of the price of all commodities, in consequence of that of labor, is a case which differs in the two following respects from that of a particular commodity, of which the price was enhanced by a particular tax immediately imposed upon it.

First, it might always be known with great exactness how far the price of such a commodity could be enhanced by such a tax: but how far the general enhancement of the price of labor



might affect that of every different commodity about which labor was employed, could never be known with any tolerable exactness. It would be impossible, therefore, to proportion with any tolerable exactness the tax upon every foreign, to this enhancement of the price of every home commodity.

Secondly, taxes upon the necessaries of life have nearly the same effect upon the circumstances of the people as a poor soil and a bad climate. Provisions are thereby rendered dearer in the same manner as if it required extraordinary labor and expense to raise them. As in the natural scarcity arising from soil and climate, it would be absurd to direct the people in what manner they ought to employ their capitals and industry, so is it likewise in the artificial scarcity arising from such taxes. To be left to accommodate, as well as they could, their industry to their situation, and to find out those employments in which, notwithstanding their unfavorable circumstances, they might have some advantage either in the home or in the foreign market, is what in both cases would evidently be most for their advantage. To lay a new tax upon them, because they are already overburdened with taxes, and because they already pay too dear for the necessaries of life, to make them likewise pay too dear for the greater part of other commodities, is certainly a most absurd way of making amends.

Such taxes, when they have grown up to a certain height, are a curse equal to the barrenness



of the earth and the inclemency of the heavens; and yet it is in the richest and most industrious countries that they have been most generally imposed. No other countries could support so great a disorder. As the strongest bodies only can live and enjoy health, under an unwholesome regimen; so the nations only, that in every sort of industry have the greatest natural and acquired advantages, can subsist and prosper under such taxes. Holland is the country in Europe in which they abound most, and which from peculiar circumstances continues to prosper, not by means of them, as has been most absurdly supposed, but in spite of them.

As there are two cases in which it will generally be advantageous to lay some burden upon foreign, for the encouragement of domestic industry; so there are two others in which it may sometimes be a matter of deliberation; in the one, how far it is proper to continue the free importation of certain foreign goods; and in the other, how far, or in what manner, it may be proper to restore that free importation after it has been for some time interrupted.

The case in which it may sometimes be a matter of deliberation how far it is proper to continue the free importation of certain foreign goods, is, when some foreign nation restrains by high duties or prohibitions the importation of some of our manufactures into their country. Revenge in this case naturally dictates retaliation, and that we should impose the like duties and prohibitions upon the importation of some



or all of their manufactures into ours. Nations, accordingly seldom fail to retaliate in this manner. The French have been particularly forward to favor their own manufactures by restraining the importation of such foreign goods as could come into competition with them. In this consisted a great part of the policy of Mr. Colbert, who, notwithstanding his great abilities, seems in this case to have been imposed upon by the sophistry of merchants and manufacturers, who are always demanding a monopoly against their countrymen. It is at present the opinion of the most intelligent men in France that his operations of this kind have not been beneficial to his country. That minister, by the tariff of 1667, imposed very high duties upon a great number of foreign manufactures. Upon his refusing to moderate them in favor of the Dutch, they in 1671 prohibited the importation of the wines, brandies, and manufactures of France. The war of 1672 seems to have been in part occasioned by this commercial dispute. The peace of Nimeguen put an end to it in 1678, by moderating some of those duties in favor of the Dutch, who in consequence took off their prohibition. It was about the same time that the French and English began mutually to oppress each other's industry, by the like duties and prohibitions, of which the French, however, seem to have set the first example. The spirit of hostility which has subsisted between the two nations ever since, has hitherto hindered them from being moderated on either



side. In 1697 the English prohibited the importation of bonelace, the manufacture of Flanders. The government of that country, at that time under the dominion of Spain, prohibited in return the importation of English woollens. In 1700, the prohibition of importing bonelace into England, was taken off upon condition that the importation of English woollens into Flanders should be put on the same footing as before.

There may be good policy in retaliations of this kind, when there is a probability that they will procure the repeal of the high duties or prohibitions complained of. The recovery of a great foreign market will generally more than compensate the transitory inconveniency of paying dearer during a short time for some sorts of goods. To judge whether such retaliations are likely to produce such an effect, does not, perhaps, belong so much to the science of a legislator, whose deliberations ought to be governed by general principles which are always the same, as to the skill of that insidious and crafty animal, vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs. When there is no probability that any such repeal can be procured, it seems a bad method of compensating the injury done to certain classes of our people, to do another injury ourselves, not only to those classes, but to almost all the other classes of them. When our neighbours prohibit some manufacture of ours, we generally prohibit, not only the same, for that alone would seldom affect them considerably,



but some other manufacture of theirs. This may no doubt give encouragement to some particular class of workmen among ourselves, and by excluding some of their rivals, may enable them to raise their price in the home-market. Those workmen, however, who suffered by our neighbours' prohibition will not be benefited by ours. On the contrary, they and almost all the other classes of our citizens will thereby be obliged to pay dearer than before for certain goods. Every such law, therefore, imposes a real tax upon the whole country, not in favor of that particular class of workmen who were injured by our neighbours' prohibition, but of some other class.

The case in which it may sometimes be a matter of deliberation, how far, or in what manner, it is proper to restore the free importation of foreign goods, after it has been for some time interrupted, is, when particular manufactures, by means of high duties or prohibitions upon all foreign goods which can come into competition with them, have been so far extended as to employ a great multitude of hands. Humanity may in this case require that the freedom of trade should be restored only by slow gradations, and with a good deal of reserve and circumspection. Were those high duties and prohibitions taken away all at once, cheaper foreign goods of the same kind might be poured so fast into the home market, as to deprive all at once many thousands of our people of their ordinary employment and means of subsistence. The disorder



which this would occasion might no doubt be very considerable. It would in all probability, however, be much less than is commonly imagined, for the two following reasons:

First, all those manufactures, of which any part is commonly exported to other European countries without a bounty, could be very little affected by the freest importation of foreign goods. Such manufactures must be sold as cheap abroad as any other foreign goods of the same quality and kind, and consequently must be sold cheaper at home. They would still, therefore, keep possession of the home market, and though a capricious man of fashion might sometimes prefer foreign wares, merely because they were foreign, to cheaper and better goods of the same kind that were made at home, this folly could, from the nature of things, extend to so few, that it could make no sensible impression upon the general employment of the people. But a great part of all the different branches of our woollen manufacture, of our tanned leather, and of our hard-ware, are annually exported to other European countries without any bounty, and these are the manufactures which employ the greatest number of hands. The silk, perhaps, is the manufacture which would suffer the most by this freedom of trade, and after it the linen, though the latter much less than the former.

Secondly, though a great number of people should, by thus restoring the freedom of trade, be thrown all at once out of their ordinary employment and common method of subsistence, it



would by no means follow that they would thereby be deprived either of employment or subsistence. By the reduction of the army and navy at the end of the late war, more than a hundred thousand soldiers and seamen, a number equal to what is employed in the greatest manufactures, were all at once thrown out of their ordinary employment; but, though they no doubt suffered some inconveniency, they were not thereby deprived of all employment and subsistence. The greater part of the seamen, it is probable, gradually betook themselves to the merchant-service as they could find occasion, and in the mean time both they and the soldiers were absorbed in the great mass of the people, and employed in a great variety of occupations. Not only no great convulsion, but no sensible disorder arose from so great a change in the situation of more than a hundred thousand men, all accustomed to the use of arms, and many of them to rapine and plunder. The number of vagrants was scarce any-where sensibly increased by it, even the wages of labor were not reduced by it in any occupation, so far as I have been able to learn except in that of seamen in the merchant-service. But if we compare together the habits of a soldier and of any sort of manufacturer, we shall find that those of the latter do not tend so much to disqualify him from being employed in a new trade, as those of the former from being employed in any. The manufacturer has always been accustomed to look for his subsistence from his labor only: the soldier to expect it from his pay.



Application and industry have been familiar to the one; idleness and dissipation to the other. But it is surely much easier to change the direction of industry from one sort of labor to another, than to turn idleness and dissipation to any. To the greater part of manufactures besides, it has already been observed, there are other collateral manufactures of so similar a nature, that a workman can easily transfer his industry from one of them to another. The greater part of such workmen too are occasionally employed in country labor. The stock which employed them in a particular manufacture before, will still remain in the country to employ an equal number of people in some other way. The capital of the country remaining the same, the demand for labor will likewise be the same, or very nearly the same, though it may be exerted in different places and for different occupations. Soldiers and seamen, indeed, when discharged from the king's service, are at liberty to exercise any trade, within any town or place of Great Britain or Ireland. Let the same natural liberty of exercising what species of industry they please, be restored to all his majesty's subjects, in the same manner as to soldiers and seamen; that is, break down the exclusive privileges of corporations, and repeal the statute of apprenticeship, both which are real encroachments upon natural liberty, and add to these the repeal of the law of settlements, so that a poor workman, when thrown out of employment either in one trade or in one place, may seek for it in another



trade or in another place, without the fear either of a prosecution or of a removal, and neither the public nor individuals will suffer much more from the occasional disbanding some particular classes of manufacturers, than from that of soldiers. Our manufacturers have no doubt great merit with their country, but they cannot have more than those who defend it with their blood, nor deserve to be treated with more delicacy.

To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it. Were the officers of the army to oppose with the same zeal and unanimity any reduction in the number of forces, with which master manufacturers set themselves against every law that is likely to increase the number of their rivals in the home market; were the former to animate their soldiers, in the same manner as the latter inflame their workmen, to attack with violence and outrage the proposers of any such regulation; to attempt to reduce the army would be as dangerous as it has now become to attempt to diminish in any respect the monopoly which our manufacturers have obtained against us. This monopoly has so much increased the number of some particular tribes of them, that like an over-grown standing army, they have become formidable to the government, and upon



many occasions intimidate the legislature. The member of parliament who supports every proposal for strengthening this monopoly, is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public services can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists.

The undertaker of a great manufacture who, by the home markets being suddenly laid open to the competition of foreigners, should be obliged to abandon his trade, would no doubt suffer very considerably. That part of his capital which had usually been employed in purchasing materials and in paying his workmen, might, without much difficulty, perhaps, find another employment. But that part of it which was fixed in work-houses, and in the instruments of trade, could scarce be disposed of without considerable loss. The equitable regard, therefore, to his interest requires that changes of this kind should never be introduced suddenly, but slowly, gradually, and after a very long warning. The legislature, were it possible that its deliberations could be always directed, not by the clamorous importunity of



partial interests, but by an extensive view of the general good, ought upon this very account, perhaps, to be particularly careful neither to establish any new monopolies of this kind, nor to extend further those which are already established. Every such regulation introduces some degree of real disorder into the constitution of the state, which it will be difficult afterwards to cure without occasioning another disorder.

How far it may be proper to increase taxes upon the importation of foreign goods, in order, not to prevent their importation, but to raise a revenue for government, I shall consider hereafter when I come to treat of taxes. Taxes imposed with a view to prevent, or even to diminish importation, are evidently as destructive of the revenue of the customs as of the freedom of trade.



## C H A P. III.

*Of the extraordinary Restraints upon the importation of Goods of almost all kinds, from those Countries with which the Balance is supposed to be disadvantageous.*

## P A R T I.

*Of the Unreasonableness of those Restraints even upon the Principles of the Commercial System.*

**T**O lay extraordinary restraints upon the importation of goods of almost all kinds from those particular countries with which the balance of trade is supposed to be disadvantageous, is the second expedient by which the commercial system proposes to increase the quantity of gold and silver. Thus in Great Britain, Silesia lawns may be imported for home consumption, upon paying certain duties. But French cambrics and lawns are prohibited to be imported, except into the port of London, there to be warehoused for exportation. Higher duties are imposed upon the wines of France than upon those of Portugal, or indeed of any other country. By what is called the impost 1692, a duty of five-and-twenty per cent., of the rate or value, was laid upon all French goods; while the goods of other nations were, the greater part of them, subjected to much lighter duties, seldom exceeding five per cent.



The wine, brandy, salt and vinegar of France were indeed excepted; these commodities being subjected to other heavy duties, either by other laws, or by particular clauses of the same law. In 1696, a second duty of twenty-five per cent., the first not having been thought a sufficient discouragement, was imposed upon all French goods, except brandy; together with a new duty of five-and-twenty pounds upon the ton of French wine, and another of fifteen pounds upon the ton of French vinegar. French goods have never been omitted in any of those general subsidies, or duties of five per cent., which have been imposed upon all, or the greater part of the goods enumerated in the book of rates. If we count the one third and two third subsidies as making a compleat subsidy between them, there have been five of these general subsidies; so that before the commencement of the present war seventy-five per cent. may be considered as the lowest duty, to which the greater part of the goods of the growth, produce, or manufacture of France were liable. But upon the greater part of goods, those duties are equivalent to a prohibition. The French in their turn have, I believe, treated our goods and manufactures just as hardly; though I am not so well acquainted with the particular hardships which they have imposed upon them. Those mutual restraints have put an end to almost all fair commerce between the two nations, and smugglers are now the principal importers, either of British goods into France, or of French goods



into Great Britain. The principles which I have been examining in the foregoing chapter took their origin from private interest and the spirit of monopoly; those which I am going to examine in this, from national prejudice and animosity. They are, accordingly, as might well be expected, still more unreasonable. They are so, even upon the principles of the commercial system.

First, though it were certain that in the case of a free trade between France and England, for example, the balance would be in favor of France, it would by no means follow that such a trade would be disadvantageous to England, or that the general balance of its whole trade would thereby be turned more against it. If the wines of France are better and cheaper than those of Portugal, or its linens than those of Germany, it would be more advantageous for Great Britain to purchase both the wine and the foreign linen which it had occasion for of France, than of Portugal and Germany. Though the value of the annual importations from France would thereby be greatly augmented, the value of the whole annual importations would be diminished, in proportion as the French goods of the same quality were cheaper than those of the other two countries. This would be the case, even upon the supposition that the whole French goods imported were to be consumed in Great Britain.

But, secondly, a great part of them might be re-exported to other countries, where, being sold with profit, they might bring back a return equal



in value, perhaps, to the prime cost of the whole French goods imported. What has frequently been said of the East India trade might possibly be true of the French; that though the greater part of East India goods were bought with gold and silver, the re-exportation of a part of them to other countries, brought back more gold and silver to that which carried on the trade than the prime cost of the whole amounted to. One of the most important branches of the Dutch trade, at present, consists in the carriage of French goods to other European countries. Some part even of the French wine drank in Great Britain is clandestinely imported from Holland and Zealand. If there was either a free trade between France and England, or if French goods could be imported upon paying only the same duties as those of other European nations, to be drawn back upon exportation, England might have some share of a trade which is found so advantageous to Holland.

Thirdly, and lastly, there is no certain criterion by which we can determine on which side what is called the balance between any two countries lies, or which of them exports to the greatest value. National prejudice and animosity, prompted always by the private interest of particular traders, are the principles which generally direct our judgment upon all questions concerning it. There are two criterions, however, which have frequently been appealed to upon such occasions, the custom-house books and the course of exchange. The custom-house books,  
I think,



I think, it is now generally acknowledged, are a very uncertain criterion, on account of the inaccuracy of the valuation at which the greater part of goods are rated in them. The course of exchange is, perhaps, almost equally so.

When the exchange between two places, such as London and Paris, is at par, it is said to be a sign that the debts due from London to Paris are compensated by those due from Paris to London. On the contrary, when a premium is paid at London for a bill upon Paris, it is said to be a sign that the debts due from London to Paris are not compensated by those due from Paris to London, but that a balance in money must be sent out from the latter place; for the risk, trouble, and expense of exporting which, the premium is both demanded and given. But the ordinary state of debt and credit between those two cities must necessarily be regulated, it is said, by the ordinary course of the dealings with one another. When neither of them imports from the other to a greater amount than it exports to that other, the debts and credits of each may compensate one another. But when one of them imports from the other to a greater value than it exports to that other, the former necessarily becomes indebted to the latter in a greater sum than the latter becomes indebted to it: the debts and credits of each do not compensate one another, and money must be sent out from that place of which the debts over-balance the credits. The ordinary course of exchange, therefore, being an indication of the ordinary



state of debt and credit between two places, must likewise be an indication of the ordinary course of their exports and imports, as these necessarily regulate that state.

But though the ordinary course of exchange should be allowed to be a sufficient indication of the ordinary state of debt and credit between any two places, it would not from thence follow, that the balance of trade was in favor of that place which had the ordinary state of debt and credit in its favor. The ordinary state of debt and credit between any two places is not always entirely regulated by the ordinary course of their dealings with one another; but is often influenced by that of the dealings of either with many other places. If it is usual, for example, for the merchants of England to pay for the goods which they buy of Hamburgh, Dantzic, Riga, &c. by bills upon Holland, the ordinary state of debt and credit between England and Holland will not be regulated entirely by the ordinary course of the dealings of those two countries with one another, but will be influenced by that of the dealings of England with those other places. England may be obliged to send out every year money to Holland, though its annual exports to that country may exceed very much the annual value of its imports from thence; and though what is called the balance of trade may be very much in favor of England.

In the way, besides, in which the par of exchange has hitherto been computed, the ordinary course of exchange can afford no sufficient indication



that the ordinary state of debt and credit is in favor of that country which seems to have, or which is supposed to have, the ordinary course of exchange in its favor : or, in other words, the real exchange may be, and, in fact, often is so very different from the computed one, that from the course of the latter no certain conclusion can, upon many occasions, be drawn concerning that of the former.

When for a sum of money paid in England, containing, according to the standard of the English mint, a certain number of ounces of pure silver, you receive a bill for a sum of money to be paid in France, containing, according to the standard of the French mint, an equal number of ounces of pure silver, exchange is said to be at par between England and France. When you pay more, you are supposed to give a premium, and exchange is said to be against England, in favor of France. When you pay less, you are supposed to get a premium, and exchange is said to be against France, and in favor of England.

But, first, we cannot always judge of the value of the current money of different countries by the standard of their respective mints. In some it is more, in others it is less worn, clipt, and otherwise degenerated from that standard. But the value of the current coin of every country, compared with that of any other country, is in proportion not to the quantity of pure silver which it ought to contain, but to that which it actually does contain. Before the reformation of



the silver coin in king William's time, exchange between England and Holland, computed, in the usual manner, according to the standard of their respective mints, was five-and-twenty per cent. against England. But the value of the current coin of England, as we learn from M. Lowndes, was at that time rather more than five-and-twenty per cent. below its standard value. The real exchange, therefore, may even at that time have been in favor of England, notwithstanding the computed exchange was so much against it; a smaller number of ounces of pure silver, actually paid in England, may have purchased a bill for a greater number of ounces of pure silver to be paid in Holland, and the man who was supposed to give, may in reality have got the premium. The French coin was, before the late reformation of the English gold coin, much less worn than the English, and was, perhaps, two or three per cent. nearer its standard. If the computed exchange with France, therefore, was not more than two or three per cent. against England, the real exchange might have been in its favor. Since the reformation of the gold coin, the exchange has been constantly in favor of England, and against France.

Secondly, in some countries, the expense of coinage is defrayed by the government; in others, it is defrayed by the private people who carry their bullion to the mint, and the government even derives some revenue from the coinage. In England, it is defrayed by the government, and if you carry a pound weight of standard silver to



the mint, you get back sixty-two shillings, containing a pound weight of the like standard silver. In France, a duty of eight per cent. is deducted for the coinage, which not only defrays the expense of it, but affords a small revenue to the government. In England, as the coinage costs nothing, the current coin can never be much more valuable than the quantity of bullion which it actually contains. In France, the workmanship, as you pay for it, adds to the value, in the same manner as to that of wrought plate. A sum of French money, therefore, containing a certain weight of pure silver, is more valuable than a sum of English money containing an equal weight of pure silver, and must require more bullion, or other commodities, to purchase it. Though the current coin of the two countries, therefore, were equally near the standards of their respective mints, a sum of English money could not well purchase a sum of French money, containing an equal number of ounces of pure silver, nor consequently a bill upon France for such a sum. If for such a bill no more additional money was paid than what was sufficient to compensate the expense of the French coinage, the real exchange might be at par between the two countries, their debts and credits might mutually compensate one another, while the computed exchange was considerably in favor of France. If less than this was paid, the real exchange might be in favor of England, while the computed was in favor of France.



Thirdly, and lastly, in some places, as at Amsterdam, Hamburgh, Venice, &c. foreign bills of exchange are paid in what they call bank money; while in others, as at London, Lisbon, Antwerp, Leghorn, &c. they are paid in the common currency of the country. What is called bank money is always of more value than the same nominal sum of common currency. A thousand guilders in the bank of Amsterdam, for example, are of more value than a thousand guilders of Amsterdam currency. The difference between them is called the *agio* of the bank, which, at Amsterdam, is generally about five per cent. Supposing the current money of the two countries equally near to the standard of their respective mints, and that the one pays foreign bills in this common currency, while the other pays them in bank money, it is evident that the computed exchange may be in favor of that which pays in bank money, though the real exchange should be in favor of that which pays in current money; for the same reason that the computed exchange may be in favor of that which pays in better money, or in money nearer to its own standard, though the real exchange should be in favor of that which pays in worse. The computed exchange, before the late reformation of the gold coin, was generally against London with Amsterdam, Hamburgh, Venice, and, I believe, with all other places which pay in what is called bank money. It will by no means follow, however, that the real exchange was against it. Since the reformation of the gold



coin, it has been in favor of London even with those places. The computed exchange has generally been in favor of London with Lisbon, Antwerp, Leghorn, and, if you except France, I believe, with most other parts of Europe that pay in common currency; and it is not improbable that the real exchange was so too.

*Digression concerning Banks of Deposit, particularly concerning that of Amsterdam.*

THE currency of a great state, such as France or England, generally consists almost entirely of its own coin. Should this currency, therefore, be at any time worn, clipt, or otherwise degraded below its standard value, the state by a reformation of its coin can effectually re-establish its currency. But the currency of a small state, such as Genoa or Hamburgh, can seldom consist altogether in its own coin, but must be made up, in a great measure, of the coins of all the neighbouring states with which its inhabitants have a continual intercourse. Such a state, therefore, by reforming its coin, will not always be able to reform its currency. If foreign bills of exchange are paid in this currency, the uncertain value of any sum, of what is in its own nature so uncertain, must render the exchange always very much against such a state, its currency being, in all foreign states, necessarily valued even below what it is worth.



In order to remedy the inconvenience to which this disadvantageous exchange must have subjected their merchants, such small states, when they began to attend to the interest of trade, have frequently enacted, that foreign bills of exchange of a certain value should be paid, not in common currency, but by an order upon, or by a transfer in the books of a certain bank, established upon the credit, and under the protection of the state; this bank being always obliged to pay, in good and true money, exactly according to the standard of the state. The banks of Venice, Genoa, Amsterdam, Hamburgh, and Nuremberg, seem to have been all originally established with this view, though some of them may have afterwards been made subservient to other purposes. The money of such banks being better than the common currency of the country, necessarily bore an agio, which was greater or smaller, according as the currency was supposed to be more or less degraded below the standard of the state. The agio of the bank of Hamburgh, for example, which is said to be commonly about fourteen per cent. is the supposed difference between the good standard money of the state, and the clipt, worn, and diminished currency poured into it from all the neighbouring states.

Before 1609 the great quantity of clipt and worn foreign coin, which the extensive trade of Amsterdam brought from all parts of Europe, reduced the value of its currency about nine per cent. below that of good money fresh from



the mint. Such money no sooner appeared than it was melted down or carried away, as it always is in such circumstances. The merchants, with plenty of currency, could not always find a sufficient quantity of good money to pay their bills of exchange; and the value of those bills, in spite of several regulations which were made to prevent it, became in a great measure uncertain.

In order to remedy these inconveniencies, a bank was established in 1609 under the guarantee of the city. This bank received both foreign coin, and the light and worn coin of the country at its real intrinsic value in the good standard money of the country, deducting only so much as was necessary for defraying the expense of coinage, and the other necessary expense of management. For the value which remained, after this small deduction was made, it gave a credit in its books. This credit was called bank money, which, as it represented money exactly according to the standard of the mint, was always of the same real value, and intrinsically worth more than current money. It was at the same time enacted, that all bills drawn upon or negotiated at Amsterdam of the value of six hundred guilders and upwards should be paid in bank money, which at once took away all uncertainty in the value of those bills. Every merchant, in consequence of this regulation, was obliged to keep an account with the bank in order to pay his foreign bills of exchange, which necessarily occasioned a certain demand for bank money.



Bank money, over and above both its intrinsic superiority to currency, and the additional value which this demand necessarily gives it, has likewise some other advantages. It is secure from fire, robbery, and other accidents; the city of Amsterdam is bound for it; it can be paid away by a simple transfer, without the trouble of counting, or the risk of transporting it from one place to another. In consequence of those different advantages, it seems from the beginning to have borne an agio, and it is generally believed that all the money originally deposited in the bank was allowed to remain there, nobody caring to demand payment of a debt which he could sell for a premium in the market. By demanding payment of the bank, the owner of a bank credit would lose this premium. As a shilling fresh from the mint will buy no more goods in the market than one of our common worn shillings, so the good and true money which might be brought from the coffers of the bank into those of a private person, being mixed and confounded with the common currency of the country, would be of no more value than that currency, from which it could no longer be readily distinguished. While it remained in the coffers of the bank, its superiority was known and ascertained. When it had come into those of a private person, its superiority could not well be ascertained without more trouble than perhaps the difference was worth. By being brought from the coffers of the bank, besides, it lost all the other advantages of bank money; its security,



its easy and safe transferability, its use in paying foreign bills of exchange. Over and above all this, it could not be brought from those coffers, as it will appear by and by, without previously paying for the keeping.

Those deposits of coin, or those deposits which the bank was bound to restore in coin, constituted the original capital of the bank, or the whole value of what was represented by what is called bank money. At present they are supposed to constitute but a very small part of it. In order to facilitate the trade in bullion, the bank has been for these many years in the practice of giving credit in its books upon deposits of gold and silver bullion. This credit is generally about five per cent. below the mint price of such bullion. The bank grants at the same time what is called a recipice or receipt, entitling the person who makes the deposit, or the bearer, to take out the bullion again at any time within six months, upon re-transferring to the bank a quantity of bank money equal to that for which credit had been given in its books when the deposit was made, and upon paying one-fourth per cent. for the keeping, if the deposit was in silver; and one-half per cent. if it was in gold; but at the same time declaring, that in default of such payment, and upon the expiration of this term, the deposit should belong to the bank at the price at which it had been received, or for which credit had been given in the transfer books. What is thus paid for the keeping of the deposit may be considered as a sort of warehouse



rent ; and why this warehouse rent should be so much dearer for gold than for silver , several different reasons have been assigned. The fineness of gold , it has been said , is more difficult to be ascertained than that of silver. Frauds are more easily practised , and occasion a greater loss in the more precious metal. Silver , besides , being the standard metal , the state , it has been said , wishes to encourage more the making of deposits of silver than those of gold.

Deposits of bullion are most commonly made when the price is somewhat lower than ordinary ; and they are taken out again when it happens to rise. In Holland the market price of bullion is generally above the mint price , for the same reason that it was so in England before the late reformation of the gold coin. The difference is said to be commonly from about six to sixteen stivers upon the mark , or eight ounces of silver of eleven parts fine , and one part alloy. The bank price , or the credit which the bank gives for deposits of such silver ( when made in foreign coin , of which the fineness is well known and ascertained , such as Mexico dollars ) , is twentytwo guilders the mark ; the mint price is about twenty-three guilders , and the market price is from twenty-three guilders six , to twenty-three guilders sixteen stivers , or from two to three per cent. above the mint price \*. The proportions between the bank price , the mint price ,

\* The following are the prices at which the bank of Amsterdam at present ( September , 1775 ) receives bullion and coin of different kinds :



and the market price of gold bullion, are nearly the same. A person can generally sell his receipt for the difference between the mint price of bullion and the market price. A receipt for bullion is almost always worth something, and it very seldom happens, therefore, that any body suffers his receipt to expire, or allows his bullion to fall to the bank at the price at which it had been received, either by not taking it out before the end of the six months, or by neglecting to pay the one-fourth or one-half per cent. in

## SILVER.

|                         |   |                 |
|-------------------------|---|-----------------|
| Mexico dollars          | } | Guilders.       |
| French crowns           |   | B — 22 per mark |
| English silver coin     |   |                 |
| Mexico dollars new coin |   | 21. 10          |
| Ducatoons - - - - -     |   | 3.              |
| Rix dollars - - - - -   |   | 2. 8            |

Bar silver containing  $\frac{11}{12}$  fine silver 21 per mark, and in this proportion down to  $\frac{1}{4}$  fine, on which 5 guilders are given.

Fine bars, 23 per mark.

## GOLD.

|                      |   |                   |
|----------------------|---|-------------------|
| Portugal coin        | } | B — 310 per mark. |
| Guineas              |   |                   |
| Louis d'ors new      |   |                   |
| Ditto old - - - - -  |   | 300               |
| New ducats - - - - - |   | 4 19 8 per ducat. |

Bar or ingot gold is received in proportion to its fineness compared with the above foreign gold coin. Upon fine bars the bank gives 340 per mark. In general, however, something more is given upon coin of a known fineness, than upon gold and silver bars, of which the fineness cannot be ascertained but by a process of melting and assaying.



order to obtain a new receipt for another six months. This, however, though it happens seldom, is said to happen sometimes, and more frequently with regard to gold, than with regard to silver, on account of the higher warehouse-rent which is paid for the keeping of the more precious metal.

The person who by making a deposit of bullion obtains both a bank credit and a receipt, pays his bills of exchange as they become due with his bank credit; and either sells or keeps his receipt according as he judges that the price of bullion is likely to rise or to fall. The receipt and the bank credit seldom keep long together, and there is no occasion that they should. The person who has a receipt, and who wants to take out bullion, finds always plenty of bank credits, or bank money to buy at the ordinary price; and the person who has bank money, and wants to take out bullion, finds receipts always in equal abundance.

The owners of bank credits, and the holders of receipts, constitute two different sorts of creditors against the bank. The holder of a receipt cannot draw out the bullion for which it is granted, without re-assigning to the bank a sum of bank money equal to the price at which the bullion had been received. If he has no bank money of his own, he must purchase it of those who have it. The owner of bank money cannot draw out bullion without producing to the bank receipts for the quantity which he wants. If he has none of his own, he must buy them of those



who have them. The holder of a receipt, when he purchases bank money, purchases the power of taking out a quantity of bullion, of which the mint price is five per cent. above the bank price. The agio of five per cent. therefore, which he commonly pays for it, is paid, not for an imaginary, but for a real value. The owner of bank money, when he purchases a receipt, purchases the power of taking out a quantity of bullion of which the market price is commonly from two to three per cent. above the mint price. The price which he pays for it, therefore, is paid likewise for a real value. The price of the receipt, and the price of the bank money, compound or make up between them the full value or price of the bullion.

Upon deposits of the coin current in the country, the bank grants receipts likewise as well as bank credits; but those receipts are frequently of no value, and will bring no price in the market. Upon ducatoons, for example, which in the currency pass for three guilders three stivers each, the bank gives a credit of three guilders only, or five per cent. below their current value. It grants a receipt likewise entitling the bearer to take out the number of ducatoons deposited at any time within six months, upon paying one-fourth per cent. for the keeping. This receipt will frequently bring no price in the market. Three guilders bank money generally sell in the market for three guilders three stivers, the full value of the ducatoons, if they were taken out of the bank; and before they can be taken out,



one - fourth per cent. must be paid for the keeping, which would be mere loss to the holder of the receipt. If the agio of the bank, however, should at any time fall to three per cent. such receipts might bring some price in the market, and might sell for one and three-fourths per cent. But the agio of the bank being now generally about five per cent. such receipts are frequently allowed to expire, or as they express it, to fall to the bank. The receipts which are given for deposits of gold ducats fall to it yet more frequently, because a higher warehouse-rent, or one-half per cent. must be paid for the keeping of them before they can be taken out again. The five per cent. which the bank gains, when deposits either of coin or bullion are allowed to fall to it, may be considered as the warehouse-rent for the perpetual keeping of such deposits.

The sum of bank money for which the receipts are expired must be very considerable. It must comprehend the whole original capital of the bank, which, it is generally supposed, has been allowed to remain there from the time it was first deposited, nobody caring either to renew his receipt or to take out his deposit, as, for the reasons already assigned, neither the one nor the other could be done without loss. But whatever may be the amount of this sum, the proportion which it bears to the whole mass of bank money is supposed to be very small. The bank of Amsterdam has for these many years past been the great warehouse of Europe for  
bullion,



bullion, for which the receipts are very seldom allowed to expire, or, as they express it, to fall to the bank. The far greater part of the bank money, or of the credits upon the books of the bank, is supposed to have been created, for these many years past, by such deposits which the dealers in bullion are continually both making and withdrawing.

No demand can be made upon the bank but by means of a recipice or receipt. The smaller mass of bank money, for which the receipts are expired, is mixed and confounded with the much greater mass for which they are still in force; so that, though there may be a considerable sum of bank money, for which there are no receipts, there is no specific sum or portion of it, which may not at any time be demanded by one. The bank cannot be debtor to two persons for the same thing; and the owner of bank money who has no receipt, cannot demand payment of the bank till he buys one. In ordinary and quiet times, he can find no difficulty in getting one to buy at the market price, which generally corresponds with the price at which he can sell the coin or bullion it entitles him to take out of the bank.

It might be otherwise during a public calamity; an invasion, for example, such as that of the French in 1672. The owners of bank money being then all eager to draw it out of the bank, in order to have it in their own keeping, the demand for receipts might raise their price to an exorbitant height. The holders of them



might form extravagant expectations, and, instead of two or three per cent. demand half the bank money for which credit had been given upon the deposits that the receipts had respectively been granted for. The enemy, informed of the constitution of the bank, might even buy them up, in order to prevent the carrying away of the treasure. In such emergencies, the bank, it is supposed, would break through its ordinary rule of making payment only to the holders of receipts. The holders of receipts, who had no bank money, must have received within two or three per cent. of the value of the deposit for which their respective receipts had been granted. The bank, therefore, it is said, would in this case make no scruple of paying, either with money or bullion, the full value of what the owners of bank money who could get no receipts were credited for in its books; paying at the same time two or three per cent. to such holders of receipts as had no bank money, that being the whole value which in this state of things could justly be supposed due to them.

Even in ordinary and quiet times it is the interest of the holders of receipts to depress the *agio*, in order either to buy bank money (and consequently the bullion, which their receipts would then enable them to take out of the bank) so much cheaper, or to sell their receipts to those who have bank money, and who want to take out bullion, so much dearer; the price of a receipt being generally equal to the difference between the market price of bank money, and



that of the coin or bullion for which the receipt had been granted. It is the interest of the owners of bank money, on the contrary, to raise the agio, in order either to sell their bank money so much dearer, or to buy a receipt so much cheaper. To prevent the stock-jobbing tricks which those opposite interests might sometimes occasion, the bank has of late years come to the resolution to sell at all times bank money for currency, at five per cent. agio, and to buy it in again at four per cent. agio. In consequence of this resolution, the agio can never either rise above five, or sink below four per cent. and the proportion between the market price of bank and that of current money, is kept at all times very near to the proportion between their intrinsic values. Before this resolution was taken, the market price of bank money used sometimes to rise so high as nine per cent. agio, and sometimes to sink so low as par, according as opposite interests happened to influence the market.

The bank of Amsterdam professes to lend out no part of what is deposited with it, but, for every guilder for which it gives credit in its books, to keep in its repositories the value of a guilder either in money or bullion. That it keeps in its repositories all the money or bullion for which there are receipts in force, for which it is at all times liable to be called upon, and which, in reality, is continually going from it and returning to it again, cannot well be doubted. But whether it does so likewise with regard to that part of its capital, for which the receipts



are long ago expired, for which in ordinary and quiet times it cannot be called upon, and which in reality is very likely to remain with it for ever, or as long as the States of the United Provinces subsist, may perhaps appear more uncertain. At Amsterdam, however, no point of faith is better established than that for every guilder, circulated as bank money, there is a correspondent guilder in gold or silver to be found in the treasure of the bank. The city is guarantee that it should be so. The bank is under the direction of the four reigning burgomasters, who are changed every year. Each new set of burgomasters visits the treasure, compares it with the books, receives it upon oath, and delivers it over, with the same awful solemnity, to the set which succeeds; and in that sober and religious country oaths are not yet disregarded. A rotation of this kind seems alone a sufficient security against any practices which cannot be avowed. Amidst all the revolutions which faction has ever occasioned in the government of Amsterdam, the prevailing party has at no time accused their predecessors of infidelity in the administration of the bank. No accusation could have affected more deeply the reputation and fortune of the disgraced party, and if such an accusation could have been supported, we may be assured that it would have been brought. In 1672, when the French king was at Utrecht, the bank of Amsterdam paid so readily as left no doubt of the fidelity with which it had observed its engagements. Some of the pieces which were then



brought from its repositories appeared to have been scorched with the fire which happened in the town-house soon after the bank was established. Those pieces, therefore, must have lain there from that time.

What may be the amount of the treasure in the bank, is a question which has long employed the speculations of the curious. Nothing but conjecture can be offered concerning it. It is generally reckoned that there are about two thousand people who keep accounts with the bank, and allowing them to have, one with another, the value of fifteen hundred pounds sterling lying upon their respective accounts (a very large allowance), the whole quantity of bank money, and consequently of treasure in the bank, will amount to about three millions sterling, or at eleven guilders the pound sterling, thirty-three millions of guilders; a great sum, and sufficient to carry on a very extensive circulation; but vastly below the extravagant ideas which some people have formed of this treasure.

The city of Amsterdam derives a considerable revenue from the bank. Besides what may be called the warehouse-rent above-mentioned, each person, upon first opening an account with the bank, pays a fee of ten guilders; and for every new account three guilders three stivers; for every transfer two stivers; and if the transfer is for less than three hundred guilders, six stivers, in order to discourage the multiplicity of small transactions. The person who neglects to balance his account twice in the year forfeits



twenty-five guilders. The person who orders a transfer for more than is upon his account, is obliged to pay three per cent. for the sum overdrawn, and his order is set aside into the bargain. The bank is supposed too to make a considerable profit by the sale of the foreign coin or bullion which sometimes falls to it by the expiring of receipts, and which is always kept till it can be sold with advantage. It makes a profit likewise by selling bank money at five per cent. *agio*, and buying it in at four. These different emoluments amount to a good deal more than what is necessary for paying the salaries of officers, and defraying the expense of management. What is paid for the keeping of bullion upon receipts, is alone supposed to amount to a neat annual revenue of between one hundred and fifty thousand and two hundred thousand guilders. Public utility, however, and not revenue, was the original object of this institution. Its object was to relieve the merchants from the inconvenience of a disadvantageous exchange. The revenue which has arisen from it was unforeseen, and may be considered as accidental.

But it is now time to return from this long digression, into which I have been insensibly led in endeavouring to explain the reasons why the exchange between the countries which pay in what is called bank money, and those which pay in common currency, should generally appear to be in favor of the former, and against the latter. The former pay in a species of money of which the intrinsic value is always the same, and exactly



agreeable to the standard of their respective mints; the latter in a species of money of which the intrinsic value is continually varying, and is almost always more or less below that standard.

## P A R T. II.

*Of the Unreasonableness of those extraordinary Restraints upon other Principles.*

**I**N the foregoing Part of this Chapter I have endeavoured to show, even upon the principles of the commercial system, how unnecessary it is to lay extraordinary restraints upon the importation of goods from those countries with which the balance of trade is supposed to be disadvantageous.

Nothing, however, can be more absurd than this whole doctrine of the balance of trade, upon which, not only these restraints, but almost all the other regulations of commerce are founded. When two places trade with one another, this doctrine supposes that, if the balance be even, neither of them either loses or gains; but if it leans in any degree to one side, that one of them loses, and the other gains in proportion to its declension from the exact equilibrium. Both suppositions are false. A trade which is forced by means of bounties and monopolies, may be, and commonly is disadvantageous to the country in whose favor it is meant to be established, as I shall endeavour to show hereafter. But that



trade which, without force or constraint, is naturally and regularly carried on between any two places, is always advantageous, though not always equally so, to both.

By advantage or gain, I understand, not the increase of the quantity of gold and silver, but that of the exchangeable value of the annual produce of the land and labor of the country, or the increase of the annual revenue of its inhabitants.

If the balance be even, and if the trade between the two places consist altogether in the exchange of their native commodities, they will, upon most occasions, not only both gain, but they will gain equally, or very near equally; each will in this case afford a market for a part of the surplus produce of the other: each will replace a capital which had been employed in raising and preparing for the market this part of the surplus produce of the other, and which had been distributed among, and given revenue and maintenance to a certain number of its inhabitants. Some part of the inhabitants of each, therefore, will indirectly derive their revenue and maintenance from the other. As the commodities exchanged too are supposed to be of equal value, so the two capitals employed in the trade will, upon most occasions, be equal, or very nearly equal; and both being employed in raising the native commodities of the two countries, the revenue and maintenance which their distribution will afford to the inhabitants of each will be equal, or very nearly equal. This revenue



and maintenance, thus mutually afforded, will be greater or smaller in proportion to the extent of their dealings. If these should annually amount to a hundred thousand pounds, for example, or to a million on each side, each of them would afford an annual revenue in the one case, of a hundred thousand pounds, in the other, of a million, to the inhabitants of the other.

If their trade should be of such a nature that one of them exported to the other nothing but native commodities, while the returns of that other consisted altogether in foreign goods; the balance, in this case, would still be supposed even, commodities being paid for with commodities. They would, in this case too, both gain, but they would not gain equally; and the inhabitants of the country which exported nothing but native commodities would derive the greatest revenue from the trade. If England, for example, should import from France nothing but the native commodities of that country, and, not having such commodities of its own as were in demand there, should annually repay them by sending thither a large quantity of foreign goods, tobacco, we shall suppose, and East-India goods; this trade, though it would give some revenue to the inhabitants of both countries, would give more to those of France than to those of England. The whole French capital annually employed in it would annually be distributed among the people of France. But that part of the English capital only which was employed in producing the English commodities with which those



foreign goods were purchased, would be annually distributed among the people of England. The greater part of it would replace the capitals which had been employed in Virginia, Indostan, and China, and which had given revenue and maintenance to the inhabitants of those distant countries. If the capitals were equal, or nearly equal, therefore, this employment of the French capital would augment much more the revenue of the people of France, than that of the English capital would the revenue of the people of England. France would in this case carry on a direct foreign trade of consumption with England; whereas England would carry on a round-about trade of the same kind with France. The different effects of a capital employed in the direct, and of one employed in the round-about foreign trade of consumption, have already been fully explained.

There is not, probably, between any two countries, a trade which consists altogether in the exchange either of native commodities on both sides, or of native commodities on one side and of foreign goods on the other. Almost all countries exchange with one another partly native and partly foreign goods. That country, however, in whose cargoes there is the greatest proportion of native, and the least of foreign goods, will always be the principal gainer.

If it was not with tobacco and East-India goods, but with gold and silver, that England paid for the commodities annually imported from France, the balance, in this case, would be supposed



uneven, commodities not being paid for with commodities, but with gold and silver. The trade, however, would, in this case, as in the foregoing, give some revenue to the inhabitants of both countries, but more to those of France than to those of England. It would give some revenue to those of England. The capital which had been employed in producing the English goods that purchased this gold and silver, the capital which had been distributed among, and given revenue to, certain inhabitants of England, would thereby be replaced, and enabled to continue that employment. The whole capital of England would no more be diminished by this exportation of gold and silver, than by the exportation of an equal value of any other goods. On the contrary, it would, in most cases, be augmented. No goods are sent abroad but those for which the demand is supposed to be greater abroad than at home, and of which the returns consequently, it is expected, will be of more value at home than the commodities exported. If the tobacco which, in England, is worth only a hundred thousand pounds, when sent to France will purchase wine which is, in England, worth a hundred and ten thousand pounds, the exchange will augment the capital of England by ten thousand pounds. If a hundred thousand pounds of English gold, in the same manner, purchase French wine, which, in England, is worth a hundred and ten thousand, this exchange will equally augment the capital of England by ten thousand pounds. As a merchant who has



a hundred and ten thousand pounds worth of wine in his cellar, is a richer man than he who has only a hundred thousand pounds worth of tobacco in his warehouse, so is he likewise a richer man than he who has only a hundred thousand pounds worth of gold in his coffers. He can put into motion a greater quantity of industry, and give revenue, maintenance, and employment to a greater number of people than either of the other two. But the capital of the country is equal to the capitals of all its different inhabitants, and the quantity of industry which can be annually maintained in it, is equal to what all those different capitals can maintain. Both the capital of the country, therefore, and the quantity of industry which can be annually maintained in it, must generally be augmented by this exchange. It would, indeed, be more advantageous for England that it could purchase the wines of France with its own hard-ware and broad-cloth, than with either the tobacco of Virginia, or the gold and silver of Brazil and Peru. A direct foreign trade of consumption is always more advantageous than a round-about one. But a round-about foreign trade of consumption, which is carried on with gold and silver, does not seem to be less advantageous than any other equally round-about one. Neither is a country which has no mines, more likely to be exhausted of gold and silver by this annual exportation of those metals, than one which does not grow tobacco by the like annual exportation of that plant. As a country which has where-withal



to buy tobacco will never be long in want of it, so neither will one be long in want of gold and silver which has wherewithal to purchase those metals.

It is a losing trade, it is said, which a workman carries on with the alehouse; and the trade which a manufacturing nation would naturally carry on with a wine country, may be considered as a trade of the same nature. I answer, that the trade with the alehouse is not necessarily a losing trade. In its own nature it is just as advantageous as any other, though, perhaps, somewhat more liable to be abused. The employment of a brewer, and even that of a retailer of fermented liquors, are as necessary divisions of labor as any other. It will generally be more advantageous for a workman to buy of the brewer the quantity he has occasion for, than to brew it himself, and if he is a poor workman, it will generally be more advantageous for him to buy it, by little and little, of the retailer, than a large quantity of the brewer. He may no doubt buy too much of either, as he may of any other dealers in his neighbourhood, of the butcher, if he is a glutton, or of the draper, if he affects to be a beau among his companions. It is advantageous to the great body of workmen, notwithstanding, that all these trades should be free, though this freedom may be abused in all of them, and is more likely to be so, perhaps, in some than in others. Though individuals, besides, may sometimes ruin their fortunes by an excessive consumption of fermented liquors, there



seems to be no risk that a nation should do so. Though in every country there are many people who spend upon such liquors more than they can afford, there are always many more who spend less. It deserves to be remarked too, that, if we consult experience, the cheapness of wine seems to be a cause, not of drunkenness, but of sobriety. The inhabitants of the wine countries are in general the soberest people in Europe; witness the Spaniards, the Italians, and the inhabitants of the southern provinces of France. People are seldom guilty of excess in what is their daily fare. Nobody affects the character of liberality and good fellowship, by being profuse of a liquor which is as cheap as small beer. On the contrary, in the countries which, either from excessive heat or cold, produce no grapes, and where wine consequently is dear and a rarity, drunkenness is a common vice, as among the northern nations, and all those who live between the tropics, the negroes, for example, on the coast of Guinea. When a French regiment comes from some of the northern provinces of France, where wine is somewhat dear, to be quartered in the southern, where it is very cheap, the soldiers, I have frequently heard it observed, are at first debauched by the cheapness and novelty of good wine; but after a few months residence, the greater part of them become as sober as the rest of the inhabitants. Were the duties upon foreign wines, and the excises upon malt, beer, and ale, to be taken away all at once, it might, in the same manner, occasion in Great



Britain a pretty general and temporary drunkenness among the middling and inferior ranks of people, which would probably be soon followed by a permanent and almost universal sobriety. At present drunkenness is by no means the vice of people of fashion, or of those who can easily afford the most expensive liquors. A gentleman drunk with ale, has scarce ever been seen among us. The restraints upon the wine trade in Great Britain, besides, do not so much seem calculated to hinder the people from going, if I may say so, to the alehouse, as from going where they can buy the best and cheapest liquor. They favor the wine trade of Portugal, and discourage that of France. The Portuguese, it is said, indeed, are better customers for our manufactures than the French, and should therefore be encouraged in preference to them. As they give us their custom, it is pretended, we should give them ours. The sneaking arts of underling tradesmen are thus erected into political maxims for the conduct of a great empire: for it is the most underling tradesmen only who make it a rule to employ chiefly their own customers. A great trader purchases his goods always where they are cheapest and best, without regard to any little interest of this kind.

By such maxims as these, however, nations have been taught that their interest consisted in beggaring all their neighbours. Each nation has been made to look with an invidious eye upon the prosperity of all the nations with which it trades, and to consider their gain as its own



loss. Commerce, which ought naturally to be, among nations, as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity. The capricious ambition of kings and ministers has not, during the present and the preceding century, been more fatal to the repose of Europe, than the impertinent jealousy of merchants and manufacturers. The violence and injustice of the rulers of mankind is an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit of a remedy. But the mean rapacity, the monopolizing spirit of merchants and manufacturers, who neither are, nor ought to be, the rulers of mankind, though it cannot perhaps be corrected, may very easily be prevented from disturbing the tranquillity of any body but themselves.

That it was the spirit of monopoly which originally both invented and propagated this doctrine, cannot be doubted; and they who first taught it were by no means such fools as they who believed it. In every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest. The proposition is so very manifest, that it seems ridiculous to take any pains to prove it; nor could it ever have been called in question, had not the interested sophistry of merchants and manufacturers confounded the common sense of mankind. Their interest is, in this respect, directly opposite to that of the great body of the people. As it is the interest of the freemen  
of



of a corporation to hinder the rest of the inhabitants from employing any workmen but themselves, so it is the interest of the merchants and manufacturers of every country to secure to themselves the monopoly of the home market. Hence in Great Britain, and in most other European countries, the extraordinary duties upon almost all goods imported by alien merchants. Hence the high duties and prohibitions upon all those foreign manufactures which can come into competition with our own. Hence too the extraordinary restraints upon the importation of almost all sorts of goods from those countries with which the balance of trade is supposed to be disadvantageous; that is, from those against whom national animosity happens to be most violently inflamed.

The wealth of a neighbouring nation, however, though dangerous in war and politics, is certainly advantageous in trade. In a state of hostility it may enable our enemies to maintain fleets and armies superior to our own; but in a state of peace and commerce it must likewise enable them to exchange with us to a greater value, and to afford a better market, either for the immediate produce of our own industry, or for whatever is purchased with that produce. As a rich man is likely to be a better customer to the industrious people in his neighbourhood, than a poor, so is likewise a rich nation. A rich man, indeed, who is himself a manufacturer, is a very dangerous neighbour to all those who deal in the same way. All the rest of the neigh-



bourhood, however, by far the greatest number, profit by the good market which his expense affords them. They even profit by his underfelling the poorer workmen who deal in the same way with him. The manufacturers of a rich nation, in the same manner, may no doubt be very dangerous rivals to those of their neighbours. This very competition, however, is advantageous to the great body of the people, who profit greatly besides by the good market which the great expense of such a nation affords them in every other way. Private people who want to make a fortune, never think of retiring to the remote and poor provinces of the country, but resort either to the capital, or to some of the great commercial towns. They know, that, where little wealth circulates, there is little to be got, but that where a great deal is in motion, some share of it may fall to them. The same maxims which would in this manner direct the common sense of one, or ten, or twenty individuals, should regulate the judgment of one, or ten, or twenty millions, and should make a whole nation regard the riches of its neighbours, as a probable cause and occasion for itself to acquire riches. A nation that would enrich itself by foreign trade, is certainly most likely to do so when its neighbours are all rich, industrious, and commercial nations. A great nation surrounded on all sides by wandering savages and poor barbarians might, no doubt, acquire riches by the cultivation of its own lands, and by its own interior commerce, but not by foreign trade. It seems to have been



in this manner that the ancient Egyptians and the modern Chinese acquired their great wealth. The ancient Egyptians, it is said, neglected foreign commerce, and the modern Chinese, it is known, hold it in the utmost contempt, and scarce deign to afford it the decent protection of the laws. The modern maxims of foreign commerce, by aiming at the impoverishment of all our neighbours, so far as they are capable of producing their intended effect, tend to render that very commerce insignificant and contemptible.

It is in consequence of these maxims that the commerce between France and England has in both countries been subjected to so many discouragements and restraints. If those two countries, however, were to consider their real interest, without either mercantile jealousy or national animosity, the commerce of France might be more advantageous to Great Britain than that of any other country, and for the same reason that of Great Britain to France. France is the nearest neighbour to Great Britain. In the trade between the southern coast of England and the northern and north-western coasts of France, the returns might be expected, in the same manner as in the inland trade, four, five, or six times in the year. The capital, therefore, employed in this trade, could in each of the two countries keep in motion four, five, or six times the quantity of industry, and afford employment and subsistence to four, five, or six times the number of people, which an equal capital could do in the



greater part of the other branches of foreign trade. Between the parts of France and Great Britain most remote from one another, the returns might be expected, at least, once in the year, and even this trade would so far be at least equally advantageous as the greater part of the other branches of our foreign European trade. It would be, at least, three times more advantageous, than the boasted trade with our North American colonies, in which the returns were seldom made in less than three years, frequently not in less than four or five years. France, besides, is supposed to contain twenty-four millions of inhabitants. Our North American colonies were never supposed to contain more than three millions: And France is a much richer country than North America; though, on account of the more unequal distribution of riches, there is much more poverty and beggary in the one country, than in the other. France therefore could afford a market at least eight times more extensive, and, on account of the superior frequency of the returns, four-and-twenty times more advantageous, than that which our North American colonies ever afforded. The trade of Great Britain would be just as advantageous to France, and, in proportion to the wealth, population and proximity of the respective countries, would have the same superiority over that which France carries on with her own colonies. Such is the very great difference between that trade which the wisdom of both nations has thought



proper to discourage, and that which it has favored the most.

But the very same circumstance which would have rendered an open and free commerce between the two countries so advantageous to both, have occasioned the principal obstructions to that commerce. Being neighbours, they are necessarily enemies, and the wealth and power of each becomes, upon that account, more formidable to the other; and what would increase the advantage of national friendship, serves only to inflame the violence of national animosity. They are both rich and industrious nations; and the merchants and manufacturers of each, dread the competition of the skill and activity of those of the other. Mercantile jealousy is excited, and both inflames, and is itself inflamed, by the violence of national animosity: And the traders of both countries have announced, with all the passionate confidence of interested falsehood, the certain ruin of each, in consequence of that unfavorable balance of trade, which, they pretend, would be the infallible effect of an unrestrained commerce with the other.

There is no commercial country in Europe of which the approaching ruin has not frequently been foretold by the pretended doctors of this system, from an unfavorable balance of trade. After all the anxiety, however, which they have excited about this, after all the vain attempts of almost all trading nations to turn that balance in their own favor and against their neighbours,



it does not appear that any one nation in Europe has been in any respect impoverished by this cause. Every town and country, on the contrary, in proportion as they have opened their ports to all nations, instead of being ruined by this free trade, as the principles of the commercial system would lead us to expect, have been enriched by it. Though there are in Europe, indeed, a few towns which in some respects deserve the name of free ports, there is no country which does so. Holland, perhaps, approaches the nearest to this character of any, though still very remote from it; and Holland, it is acknowledged, not only derives its whole wealth, but a great part of its necessary subsistence, from foreign trade.

There is another balance, indeed, which has already been explained, very different from the balance of trade, and which, according as it happens to be either favorable or unfavorable, necessarily occasions the prosperity or decay of every nation. This is the balance of the annual produce and consumption. If the exchangeable value of the annual produce, it has already been observed, exceeds that of the annual consumption, the capital of the society must annually increase in proportion to this excess. The society in this case lives within its revenue, and what is annually saved out of its revenue, is naturally added to its capital, and employed so as to increase still further the annual produce. If the exchangeable value of the annual produce,



on the contrary, fall short of the annual consumption, the capital of the society must annually decay in proportion to this deficiency. The expense of the society in this case exceeds its revenue, and necessarily encroaches upon its capital. Its capital, therefore, must necessarily decay, and, together with it, the exchangeable value of the annual produce of its industry.

This balance of produce and consumption is entirely different from, what is called, the balance of trade. It might take place in a nation which had no foreign trade, but which was entirely separated from all the world. It may take place in the whole globe of the earth, of which the wealth, population, and improvement may be either gradually increasing or gradually decaying.

The balance of produce and consumption may be constantly in favor of a nation, though what is called the balance of trade be generally against it. A nation may import to a greater value than it exports for half a century, perhaps, together; the gold and silver which comes into it during all this time may be all immediately sent out of it; its circulating coin may gradually decay, different sorts of paper money being substituted in its place, and even the debts too which it contracts in the principal nations with whom it deals, may be gradually increasing; and yet its real wealth, the exchangeable value of the annual produce of its lands and labor, may, during the same period, have been increasing in



a much greater proportion. The state of our North American colonies, and of the trade which they carried on with Great Britain, before the commencement of the present disturbances \*, may serve as a proof that this is by no means an impossible supposition.

\* This paragraph was written in the year 1775.

END OF THE SECOND VOLUME.







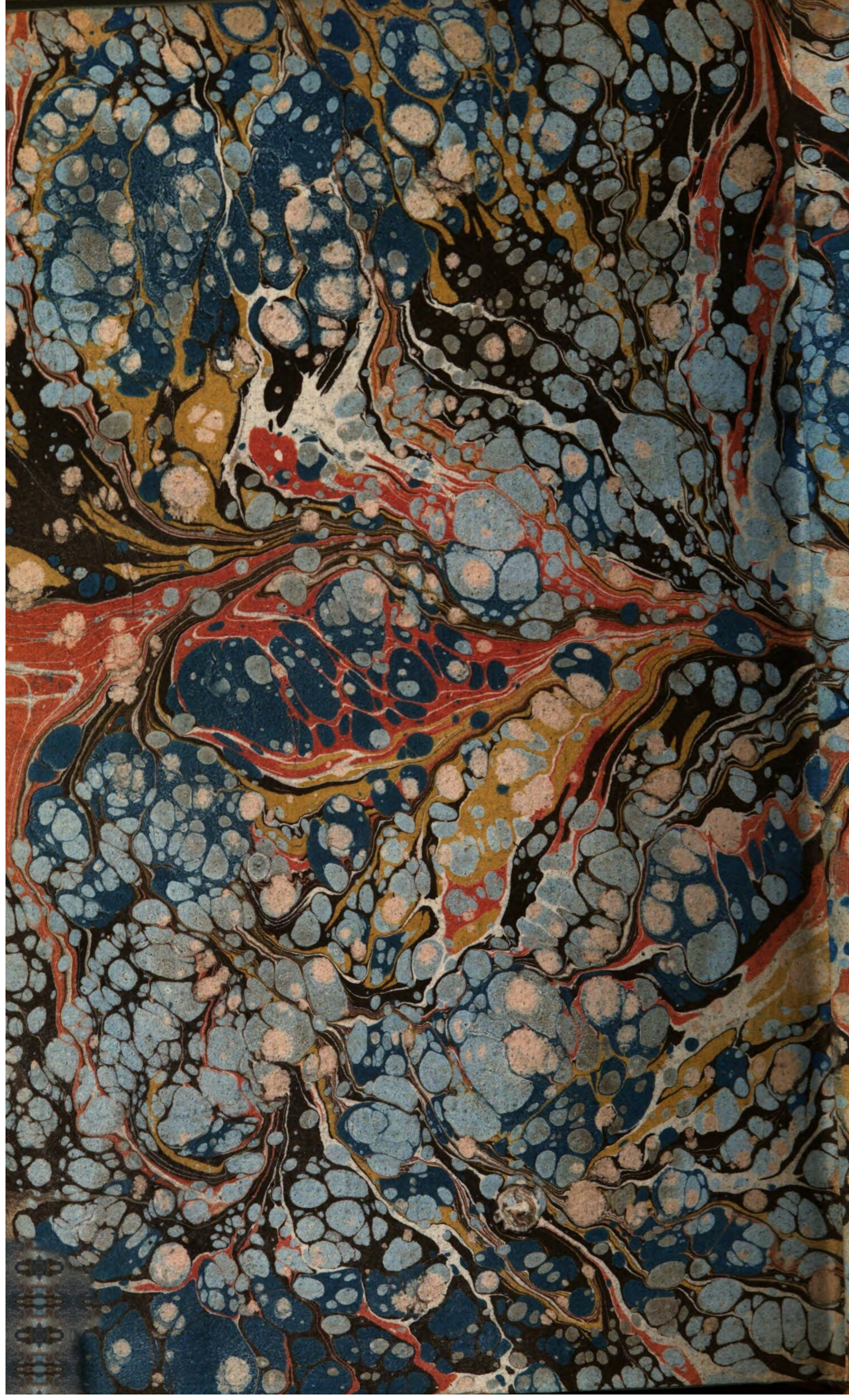




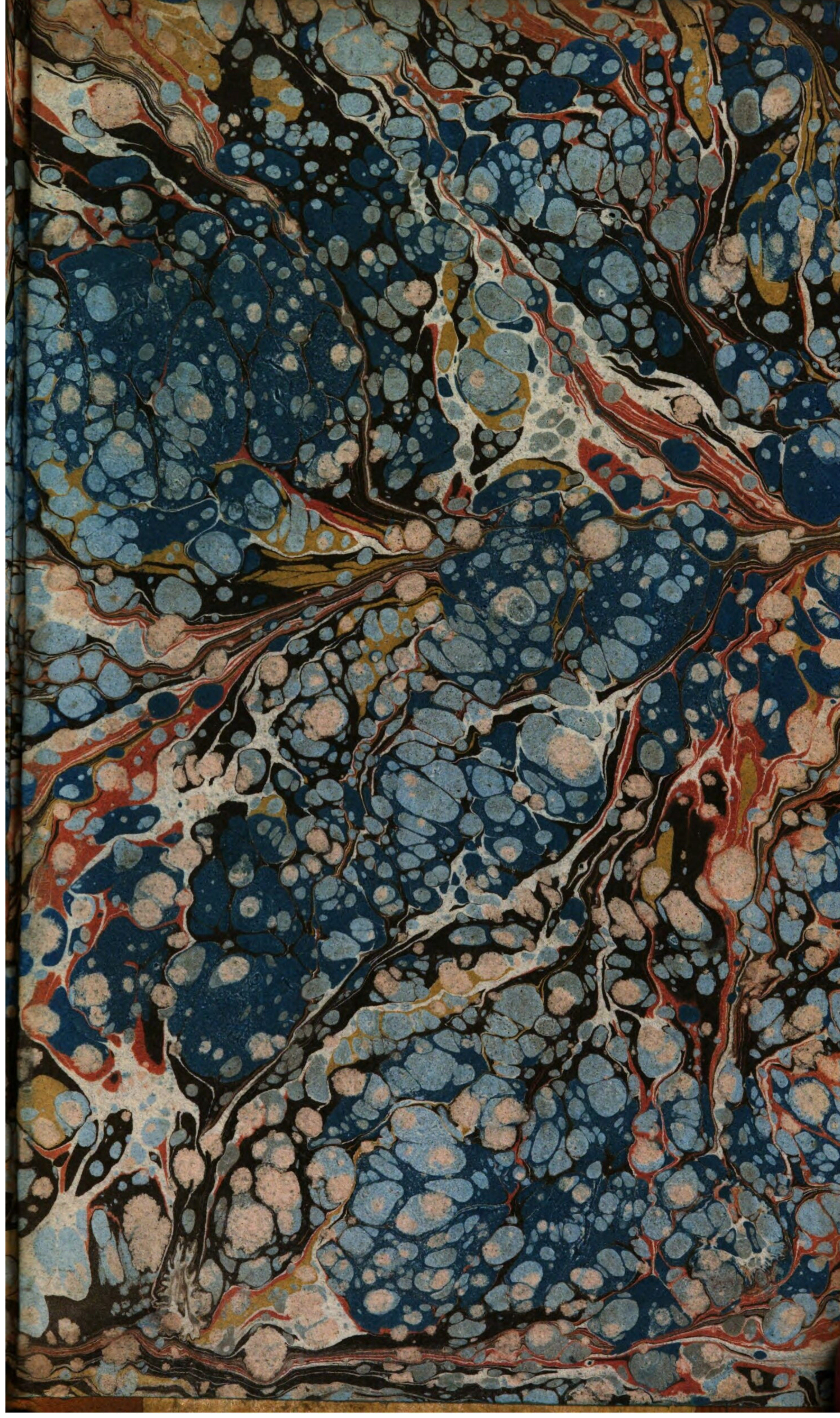


















Smith, Adam,

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